BIG OIL, BIG PROBLEMS?

Nigeria's relationship with the IOCs seems to have turned sour but what does the not-too-distant future hold? Moneda R&I looks to the financial statements of these companies for answers

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Source: 1952 Africa

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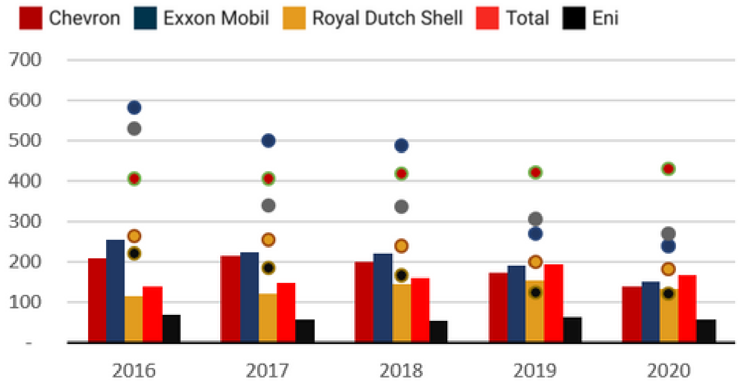
5-YEAR PERFORMANCE SUMMARY

Production and reserves have gone the same way but it is not up.

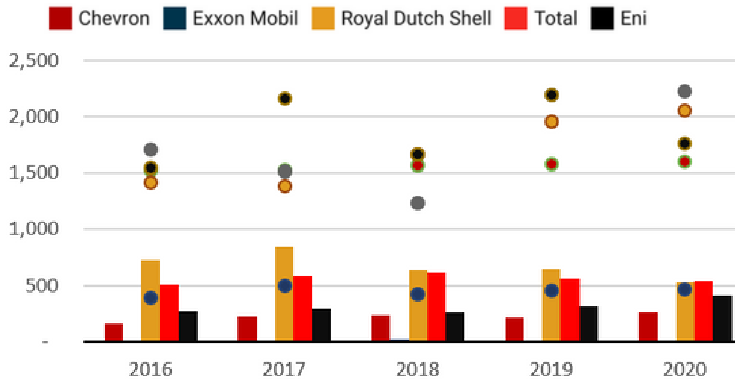
LIQUIDS PRODUCTION AND RESERVES

- ■ Production - Thousand Barrels Per Day (MBOPD)
- ● Reserves - Million Barrels (MMB)



GAS PRODUCTION AND RESERVES

- ■ Production - Million Cubic Feet (MMSCF)
- ● Reserves - Billion Cubic Feet (BCF)



750,000
Average IOCs Net production

77%
Contribution of IOCs to Nigeria's production

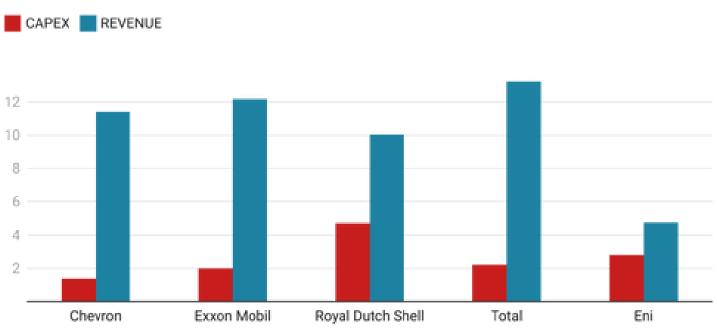
$4.35B
Average annual CAPEX by IOCs

$3.59B
Average annual IOCs production cost

Investments have been relatively poor in quantity and efficacy

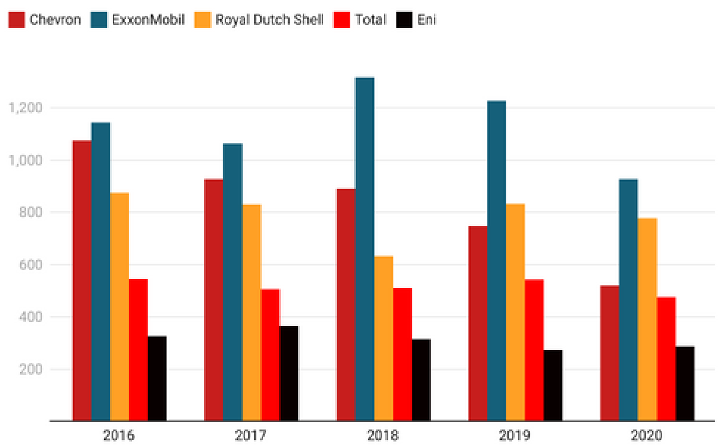
CAPEX VS REVENUE (2018 - 2020)

Billion Dollars



PRODUCTION COSTS

Million Dollars



Chevron's quiet yet effective exit strategy should cause some concern.

The company's decreasing production cost almost perfectly correlates with its dwindling oil production. Gas production is also barely picking up and as a result, the company's strategy becomes immediately clear - it is becoming less and less interested in Nigeria. To further buttress this assertion, Nigeria's contribution to its global production has dropped from 8% in 2016 to 6% in 2020.

Chevron has had the least CAPEX in the last three years amongst all five IOCs analyzed but has obtained one of the highest levels of revenue which points to one of two things - the company is very good at optimizing costs or the projects executed are short-term projects. Judging by the extremely low level of exploration being done by the company, the latter is the more likely. The company is mostly focused on the Agbami field and the Escravos GTL plant both of which started production in 2008 and 2014 respectively. There is very little to look forward to from Chevron in terms of new projects. Only one major project is in view, the Aparo project, which will be unitized with Shell's Bonga SW and will be operated by Shell.

Barring the Agbami field, Chevron currently has four blocks in production, two of which are onshore and the other two are shallow offshore. With the sale of OMLs 86 and 88 to Conoil last year, we do not rule out a similar case for other shallow offshore assets (producing and non-producing) in the next year or two bar OML 91 which contains Sonam, a field of strategic importance to Chevron at the moment.

ExxonMobil is not gassed up about its Nigerian assets.

Despite its strong presence in Akwa Ibom, the purported gas-prolific zone in Nigeria, ExxonMobil has an almost non-existent presence in the gas scene. Its gas production has not progressed beyond its weak 13 MMSCFD "peak" in 2018. The company was a leader in oil production but its steady decline since 2017 ensured that it lost the top spot in 2019. The disparity in oil production and gas production is a standout anomaly in all the data gotten from all IOCs. We expect the company to even lose its second spot in 2022 judging by the rate at which its reserves have depleted in the last 5 years.

With reports that the company is looking to sell its shallow offshore assets to Seplat and as the deal is likely to be closed next year, there is more cause for concern. Very little has been heard about the two new projects involving ExxonMobil - Bosi (OPL 209) and Owowo (OPL 223 and OML 139). We do not expect these projects to commence development in the next year and this informs our forecast of a reduction in capital expenditure for the company in 2022. Looking at the last three years, ExxonMobil's story has been similar to Chevron's - low CAPEX and high revenue signaling short-term investments.

Shell is losing ground but this is only literally.

Shell has been the most vocal about its intentions with respect to its future in Nigeria - all onshore assets are up for sale but this is simply for security reasons. After completing the divestment of OML 17 to Heirs Holdings in January 2021, reports have emerged that it is in discussions with Waltersmith for the sale of the gas-rich OML 21. We do not see this deal being completed soon but the mere fact that conversations are being had over the block should raise some eyebrows. Why would Shell look to sell a gas-rich asset whose development project (in partnership with Seplat) just closed a $260 million financing deal in February? The company may just be resolute in its resolve to get rid of all onshore assets.

Notwithstanding this exodus offshore, the trend shown by the company's figures paints an nteresting picture. The oil production has been relatively stable and the slight drop in production in 2020 could be easily attributed to the pandemic and OPEC+ cuts. Gas reserves have been on a steady increase over the last four years, the only while oil reserves' biggest drop was about 16.7% in 2019 and has remained stable since then. Gas production has been slightly disappointing though, dipping twice in five years, averaging 674MMSCFD and causing the company to lose its top spot to TotalEnergies in 2020.

With more positives than negatives in the numbers, it is looking less likely that Shell is blatantly disinterested in Nigeria as many would infer from their divestment strategies. On the contrary, these divestments may be actively driving its growth, especially as the much-needed cash will prove helpful in its energy transition mandate. Based on this, we expect Shell to still invest heavily in the country as it has done in the last three years, ranking the highest in terms of CAPEX. There are a few exciting projects in view for the company including the HI (OML 144), Bonga SW-Aparo (OML 118/OML 140/OML132), Bolia-Chota (OML 135, to be unitized with Oando's OML 131), and Etan & Zabazaba (OPL 245 - a joint development with Eni) projects. At least two of these projects will get a green light in 2022.

TotalEnergies' long-range vision in Nigeria will not be shortened anytime soon.

When Akpo started production, work intensified on Egina, while Egina was close to production, development for Ikike started and with Ikike almost nearing completion at the moment, plans for Preowei are in motion. This short story summarizes Total's long-term plan in Nigeria and that is why production increased by 39% between 2016 and 2019 but only dropped in 2020 due to OPEC+ cuts. We expect the production to slightly increase in 2021 and increase even further in 2022 due to the easing of the production cuts as well as the commencement of Ikike. That same story is the reason the company is doing so well with respect to gas with the focus mostly on its Obite gas plant. Its gas reserves have grown consistently for the last three years at a CAGR of 22.02% hitting 2.23TCF in 2020 and has now surpassed Shell as the top gas producer in the country. The fast depleting oil reserves is a cause for concern but on the flip side, it could also be construed as a strategy to focus more on gas in the long term.

In absolute terms, TotalEnergies has had a smaller CAPEX when compared to the likes of Shell, however, when looked at per number of operated assets, it is quite competitive. Regardless, we expect the gap to be slightly reduced in 2022. Production costs will increase, albeit at a slow rate due to the company's stringent cost-cutting measures.

Eni wants to be less quiet than before.

What Eni is lacking in oil production, it is making up for in gas. While oil production has been stagnant for the last 5 years, Eni had the largest increase (31.59%) in gas production in 2020 - a so-called pandemic year. We expect the oil production to remain low for 2022 since there are no reports of major work being done at the moment. Oil reserves have dipped slightly but gas reserves have remained relatively flat. The company's operations may start to look promising in the later years should the Etan & Zabazaba project move forward but it is unlikely to happen without a bit of obstruction from the government who is unhappy about the ruling of international courts over the acquisition of OPL 245 - the block that hosts the project.

CAPEX over the last three years has been relatively high, almost hitting an average of $1 billion annually and ranking second amongst the IOCs. Spending this much yet having the least revenue by a country mile leaves a serious gap that is difficult to explain with mere numbers. Notwithstanding, the company's interest in Nigeria is growing since Nigeria's share of its total production has increased by 1 percent point every year for the last three years. In the long-term, Eni will continue to invest in the country.

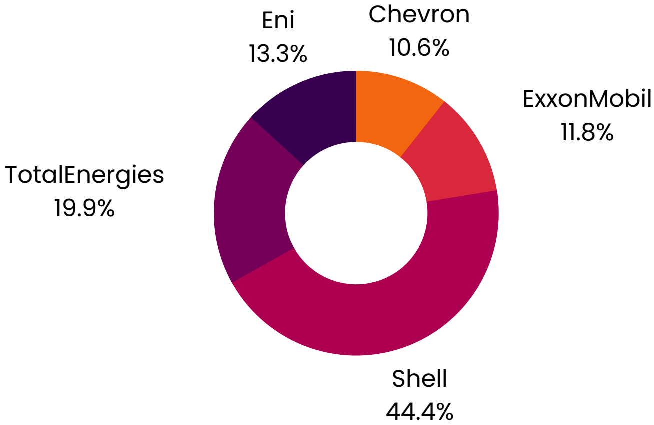
IOCs in Nigeria - The Year Ahead

There are many factors impacting the activities of IOCs in Nigeria and COVID-19 might just be the least of them. Judging by the trend shown by the charts and figures analyzed, the decline in production, reserves and the loss of interest in the country has been brewing long before the pandemic. One factor that is perhaps often talked about is the energy transition debate and Shell's name has been mentioned more times than others. Two Shell projects in 2021 alone, Jackdaw and Cambo, have been rejected by UK authorities and this can trigger two possible situations - either the company decides to bow to the pressure and take its energy transition more seriously or it decides to focus more on countries with less focus on renewables like Nigeria. 2022 could likely come with a balance between these two scenarios. Unfortunately, companies like ExxonMobil and Chevron that have shown little interest in renewables have surprisingly given preference to shale plays in the U.S. Security problems onshore Niger Delta may likely persist in the coming year, thereby increasing the frustrations of the IOCs onshore and in shallow water.

There have been very few reports of exploration activities amongst the IOCs and we expect it to remain so next year. New developments will likely happen and one of the most certain of them is TotalEnergies' Ikike project which is almost at completion at the moment of drafting this report. The Bonga SW-Aparo project looks likely to take FID next year but should the construction start at all, it will be late in the year. TotalEnergies seems to be the only company with a projected increase in production next year, due to its Ikike project and the Egina field that produced less than its potential for much of 2020. Eni and Shell's acquittal on the OPL 245 scandal may spur the investment into the Etan & Zabazaba project but it is unclear what the reaction of the Nigerian government will be - on one hand they are unhappy with the judgement and might want to frustrate approvals but on another hand, they need the investments.

In terms of production cost, ExxonMobil, Chevron and Eni will see a decline in 2022 while Shell and TotalEnergies will see an increase. Quantitatively, we expect a total of $8.345 billion to be spent by the IOCs - $5.033 billion in CAPEX and $3.312 billion in production cost. The CAPEX will be 15.7% higher than the average over the last 5 years and this is a result of the expected new projects.

Unfortunately, this increase in CAPEX does not spark much confidence in IOCs. The power is slowly shifting to the independents but it is not because they are taking it, it is because the IOCs are giving it...willingly.



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