

OIL & GAS FLASH-NOTE**Impact of the Petroleum Price Collapse on Local Oil Companies**

The most obvious casualties of the ongoing collapse in oil prices have been the Naira, local equity prices and the fiscal outlook (which prompted the austerity measures announced over the week-end by the MoF). However the 30% decline in the price of Brent crude since June clearly has equally adverse implications for the independent oil companies.

- 1) A month ago the *CEO of SEPLAT* was inclined to shrug off ExxonMobil's recently published *Energy Outlook to 2040*. With specific reference to the report's observation that the supply-demand balance had swung from -5MBBOE in 2010 to +8MBOE in 2014, Austin Avuru calmly replied: *As I am sitting here, as far as that analysis goes, I don't see a glut in the market that will lead to a \$60 price ...*"
- 2) Since those ill-chosen words, *SEPLAT's share price has declined by 24% and is currently languishing at just under 40% below its early-July high*. The fact that the futures market is net long 277,000 contracts (of 1,000 U.S. bbl) suggests that considerably more pain lies ahead.
- 3) Meanwhile successful bidders in the high-profile divestitures by Shell and Chevron over the last year are likely to be experiencing *a severe case of buyers' remorse* - shared by their creditors. As will be recalled, the price commanded by each of the relevant blocs came in at or above its pre-sale estimate.
- 4) However, it looks as though at least two of these bidders are to be spared the consequences of their irrational exuberance - in each case by the most improbable twist of fate.
- 5) As previously reported, Britannia-U's USD 1.7 billion bid for Chevron's interest in OML 52, 53 and 55 came in at 3x the industry's valuation estimate for the three properties and significantly above the next best offer. Nevertheless *Chevron has spent the last year, with the apparent encouragement of the NNPC, trying to torpedo BU's bid* in favour of the USD 900 million offered by SEPLAT (in association with Amni and Belema Oil).
- 6) Yet, having sued the seller for breach of contract last year (naming the rival bidder, NNPC and the oil minister as co-defendants), *Britannia-U may turn out to owe the opposing parties a debt of gratitude*.
- 7) An equally remarkable intervention has now prevented Shell from completing the sale of its stake in OML 25. Last week, *the petroleum minister invoked the right-of-first-refusal clause in the joint operating agreement between Shell and the NNPC, to preempt the sale* - even after Shell had signed an SPA with the consortium led by Crestar that had submitted the winning bid of USD 500 million in the auction held earlier this year.

¹ See Oil & Gas update, "The Chevron Divestiture Saga – latest developments", Rhombus Advisors LLC, Nov. 4, 2014

8) All indications are that the motive for the minister's intervention was to settle a score with Crestar chairman, Osten Olorunsola, whom she fired from his position as NNPC's Director of Petroleum Resources a year ago.

However *this act of ministerial caprice may well have rescued Crestar from an acquisition whose valuation assumptions have been so thoroughly overtaken by events.*

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