

# Gushing European energy IPO pipeline faces muted investor appetite



Norway's Okea, Britain's Neptune, Chrysaor, Siccar Point and Spirit Energy are all either actively preparing or expected to plan an initial public offering (IPO) in the short term, as are recently merged German-Russian Wintershall Dea and Israeli-owned Ithaca Energy.

Oil and gas companies with a combined value of around \$41 billion are seen as candidates for listing in the coming years, according to estimates by energy consultancy Wood Mackenzie.

Shares of oil and gas companies historically rise after a crash in oil prices as investors bet on a recovery in prices.

But the recovery following the 2014 downturn, the worst in

decades, has been slow and bumpy amid surging U.S. shale production and wider uncertainty over long-term oil demand as the world transitions to cleaner energy.

“IPOs tend to come when markets are sizzling hot and valuations are high – that is not the case for the energy sector currently,” said Bertrand Born, portfolio manager for global equities at German asset manager DWS.

Listed oil and gas companies have struggled in recent years, underperforming in many cases oil prices and other sectors, and offering a tough backdrop for any company contemplating a public listing.

In a sign of the challenging conditions, Okea on Thursday lowered its offered price per share and delayed its listing on the Oslo stock exchange.

Sam Laidlaw, executive chairman of Neptune, backed by private equity firms Carlyle Group and CVC Capital Partners, said he saw no time pressure for his company’s IPO.

“Lower returns at \$100 a barrel than at \$60 raised concerns among capital markets. There is less appetite from generalist investors. We don’t see anything that’s IPO ready yet,” he told Reuters this month.

“Some will consolidate, some will never make it to market, some will take longer. If we wanted to be first, there’s plenty of time still.”

Many of the IPO candidates, including Neptune, were set up in the wake of the 2014 crash by private-equity funds seeking to buy cheap and sell high when the oil price recovers.

But nearly five years on, the going is still tough for the sector.

In the first quarter of 2019, European IPOs slumped to their lowest since the aftermath of the 2008 financial crisis, as

uncertainty over Brexit and the U.S.-China trade dispute left companies not wanting to take their chances.

## UNIQUE STORY

To succeed, companies will have to offer investors something unique, says Jon Clark, regional transaction leader at EY.

“The European oil and gas IPO landscape looks like it will shift from famine to feast and the potential IPO candidates need to think how they will best position themselves,” Clark said.

Wintershall-Dea is the largest producer of the group, aiming to boost its output by around 30% to at least 750,000 barrels of oil equivalent per day by 2023, in a portfolio stretching from Brazil to Europe and Russia and the Middle East.

Chrysaor, backed by Harbour and EIG, is the largest oil and gas producer in the North Sea after acquiring large portfolios from Royal Dutch Shell and ConocoPhillips.

Neptune has assets in a number of regions and is focused on gas, seen as the least-polluting fossil fuel.

In addition to returns, environmental, social and governance (ESG) issues are an ever-growing concern for fund managers and their clients.

Unlike any other time, investors are likely to question a company seeking to list on its role in the transition to a lower carbon economy following the 2015 Paris climate agreement to limit global warming.

“Sentiment in the market is not necessarily as strong as it used to be for oil and gas assets... we’re moving towards a lower carbon economy,” said Les Thomas, chief executive of Ithaca, owned by Israel’s Delek Group, which last month acquired most of Chevron’s North Sea assets for \$2 billion.

Greek group Energean was one of a handful of energy companies to list in London in recent years, betting on Israeli gas production and long-term offtake agreements. Its shares have risen over 90% since listing last year.

“Oil price upside is not enough anymore. You have to offer investors at least partial, if not complete, security of a return on their investment regardless of commodity prices,” Energean Chief Executive Mathios Rigas said.

“It’s not enough to say I have this amazing geologist or knowledge of a basin or promise to find oil in frontier areas. To continue investing as an energy company only in oil, from an ESG perspective, is suicidal.”

---

## Turkey drafts law to help banks restructure debt



(Reuters) – A draft law submitted to Turkey’s parliament

introduces tax exemptions to loan restructurings and legal protection for bankers as Ankara tries to make it easier for banks to restructure bad debt.

Following last year's sharp fall in the lira, Turkish banks and the government have been in talks on how to restructure billions of dollars of loans and remove them from banks' books – an important step toward pulling the economy out of recession.

The draft law seen by Reuters contains some of the demands banks put to the government during the talks, such as tax exemptions on restructurings and amendments to protect bankers involved in restructuring.

Under an existing legal technicality bankers involved in debt write-downs or decreasing the value of loan collateral could potentially be liable to embezzlement charges.

The government pledged in April to repackage problem loans to energy companies, estimated at more than \$12 billion, into funds which can then be sold to investors. It aims to do the same with construction loans.

The plan is seen as one of the ways to free up banking resources as well as supporting industries that are burdened by the slowing economy.

"Banks seems to have got most of their demands from the government. I think perhaps this may help with the most troubled types of restructurings, but I'm cautious on a broader take up by banks" a restructuring consultant said on condition of anonymity.

The draft law, submitted to parliament on Monday, exempts at least 50% of the profits banks make on problem asset sales from corporate tax. Asset transfers from borrowers to creditor institutions will also not be subject to value added tax.

The types of restructurings that fall under the scope range from amend and extend agreements, to debt to equity swaps and transfer of problem loans and assets to special purpose funds.

The changes will be in effect for two years and can be extended for two more.

---

## The Lessons of the EU Leadership Fight



The haggling may have been unedifying, but the candidates nominated by the European Council to lead the European Union's governing institutions are undoubtedly impressive. If approved by the European Parliament, German Minister of Defense Ursula von der Leyen and Belgian Prime Minister Charles Michel will become president of the European Commission and Council, respectively, and Spanish Minister of Foreign Affairs Josep Borrell will serve as High Representative of the Union for Foreign Affairs and Security Policy. Then, in November, Christine Lagarde is set to succeed Mario Draghi as

president of the European Central Bank.

The good news is that each of these candidates would strengthen the EU at a time of global insecurity. The bad news is that the EU itself will continue to face significant challenges from within. The struggle to fill the top leadership positions resulted in the elimination of the *Spitzenkandidaten* process – whereby the largest party grouping in the European Parliament selects the Commission president – and the return of backroom deal-making, which many see as undemocratic. The justification for that change needs to be explained, or the EU's credibility may suffer. After all, the *Spitzenkandidaten* process was introduced in 2014 to counter the perception that the EU suffers from a democratic deficit.

The leadership struggle has also intensified a clash of perspectives within – and about – the EU's sources of legitimacy. Whereas member states with a strong parliamentary culture think the top personnel should be selected based on the results of May's European Parliament election, others (like France) consider executive experience far more important than the link to those results. It is naturally a long process to devise a broadly accepted system for selecting EU leaders. Despite this year's setback, the principle of the *Spitzenkandidaten* system should be preserved and combined in the next elections, with additional transnational lists of candidates backed by stronger trans-European party structures. Beyond that, the EU also needs to strengthen the role of the European Parliament.

A number of MEPs are deeply frustrated by the Council's failure to nominate any of the *Spitzenkandidats* on offer, and they could make their sense of betrayal known by voting against von der Leyen's appointment. Should her candidacy be rejected, months of institutional gridlock would likely follow. As a show of good faith, von der Leyen should announce early that she will work toward empowering MEPs *de facto* to



initiate legislation. With an inter-institutional agreement with the European Commission, such a change would not require an amendment to any founding treaties. Moreover, if confirmed, von der Leyen and the new European Parliament president, David Maria Sassoli of Italy's Democratic Party, should establish a working relationship as close as that of their respective predecessors, Jean-Claude Juncker and Martin Schulz. But, given the new composition of the European Parliament, they should strongly involve the chairs of all parliamentary groups that wish to work toward a stronger Europe.

The fact that MEPs elected Sassoli instead of the Council's own candidate, former Bulgarian Prime Minister Sergei Stanishev, suggests that the European Parliament election in May has led to a renewed desire for institutional self-assertion. And yet the election left the body more fragmented than ever. The number of seats held in the 751-member parliament by the two main party groups, the European People's Party (EPP) and the Progressive Alliance of Socialists and Democrats (S&D), fell from 404 to 336, owing to gains by the Greens, right-wing nationalists, and liberal centrists.

The fall of Europe's grand coalitions and the emergence of new, smaller parties will impede decision-making, as already demonstrated by the Parliament's failure to agree on its own *Spitzenkandidaten*. Divisions among the parliamentary groups are not just political, but also geographic. The EPP has almost no MEPs from France or Italy, and large delegations from Germany and Northern Europe. The S&D draws far more support from the Iberian Peninsula and Italy, with relatively few MEPs from the Visegrád group (the Czech Republic, Hungary, Poland, Slovakia) or France.

The increased fragmentation in the European Parliament goes hand in hand with changing relationships between EU member states. France and Germany's days of working hand in glove are gone; and even if they do come together on a particular issue, blocking minorities can stand in their way at the Council. The



latest round of EU leadership negotiations shows just how hard it has become to reach a majority, let alone unanimity. On the contrary, national governments fight increasingly recklessly for their interests. As a result, individual member states will face a strong temptation to pursue specific objectives in smaller, likeminded groups. The challenge, then, is to ensure that such initiatives follow official EU processes, rather than being decided through intergovernmental backroom deals.

The strong turnout in the European Parliament election indicates that the EU has not lost public support. The political center was strengthened at a time when Euroskeptic and nationalist parties are on the rise in member states. Overall, public trust in the EU is as high as it was in the 1980s, when European integration served as a defense against the Soviet Union. For most Europeans, being a part of the EU still means something.

But the outcome of the election also signaled a desire for change. Many citizens abandoned traditional parties, and a significant share of them did so out of fear. Like politicians at the national level, the EU's new leaders will have to answer to voters who harbor deep uncertainties about their and their children's future. Europeans are understandably anxious about great-power competition, new security threats, and a technological revolution that threatens to upend entire economic systems and societies.

The EU, working with member-state governments, will need to respond to these challenges with ambition and resolve. The European Council has already devised a strategic agenda for 2019-2024, and now the ball is in the European Parliament's court. Since the elections in May, MEPs from the four moderate party groups have been negotiating a shared program of policy priorities. In other words, they are putting substance over personnel; regardless of who fills the top leadership positions, the European Parliament will already have a shared platform in place. Despite the circumvention of

the *Spitzenkandidaten* process, this effort, like the slate of promising candidates selected by the Council, suggests that the EU is slowly and steadily maturing.

# ليزيكو الفرنسية: صندوق قطر السيادي الأكثر فاعلية وانتشارا على الساحة الدولية

LesEchos

À la une Idées Économie Politique Monde Tech-Médias Entreprises Bourse Finance - Marchés Régions

## Le fonds souverain qatari de nouveau offensif

Après la prudence et l'attentisme liés au blocus économique, le fonds souverain du Qatar est de nouveau plus offensif sur la scène internationale. Il veut privilégier les Etats-Unis et l'Asie dans les années à venir, et dans des secteurs comme la technologie et santé.

Lire plus tard

Marchés financiers



أكدت صحيفة ليزيكو الفرنسية أن صندوق قطر السيادي أصبح أكثر انتشارا على الساحة الدولية ويعمل على تعزيز أعماله والتركيز على الاستثمارات في الولايات المتحدة وآسيا في السنوات المقبلة، وفي قطاعات مثل التكنولوجيا والصحة.

وبين التقرير المنشور أمس وترجمته "الشرق" أن هيئة الاستثمار القطرية استحوذت للتو على حصة قدرها 250 مليون دولار، أي أقل من 5 في قطاع التكنولوجيا، "BYJU'S" % من رأس مال المجموعة الهندية التعليمية. وبعد فترة من الهدوء المرتبط بالحصار الاقتصادي الذي عانت منه الدوحة منذ عام 2017، أصبح صندوق الاستثمار الحكومي أكثر إقبالا على المشاريع ونشاطا في السوق العالمية.

### توسيع الاستثمارات <

وأورد التقرير أن سعادة الشيخ محمد بن عبد الرحمن آل ثاني، نائب رئيس الوزراء وزير الخارجية، ورئيس مجلس إدارة جهاز قطر للاستثمار، في مقابلة مع فاينانشال تايمز: "في الأشهر الستة الماضية أكد: كنا نشطين للغاية، خاصة في أمريكا الشمالية. ما زلنا نستثمر في أوروبا، لكننا أكثر تركيزًا على آسيا والولايات المتحدة." وتابع التقرير خلال زيارة رسمية لباكستان، أظهر الصندوق القطري اهتمامه بالاستثمار في قطاعات الطاقة والسياحة والإسكان. مثله مثل عدد من نظرائه، فهو مهتم بإمكانات السوق الهندية الواسعة. وفي القارة الأوروبية، تحدثت التقارير العالمية عن استحواذ قطري على أسهم في بنك دويتشه، حيث استثمرت الدوحة بالفعل في 6.1 % من حصة.

وحسب الصحيفة الفرنسية، فقد استثمر الصندوق في شركات الإدارة، لسيطر على المشاريع الكبرى، بالإضافة إلى قطاعات مثل التكنولوجيا والصحة. كما استثمر هذا العام في شركة سان فرانسيسكو الأمريكية في قطاع التمويل الشخصي عبر الإنترنت، واستأنف عمليات SoFi، الشراء في العقارات الفاخرة في مانهاتن بنيويورك. وحصل على 200 في Severn Trent مليون جنيه إسترليني في المجموعة البريطانية إدارة الموارد المائية.

وبين عامي 2010 و2018، حقق الصندوق القطري زيادة سنوية في متوسط رأسماله بنسبة 21 %، الذي يبلغ حوالي 300 مليار دولار وفقا لصندوق النقد الدولي. وفي تقرير نُشر في يونيو، تم توضيح أنه يتم استثمار نصف الأصول في الأسهم المدرجة، و20 % في السندات و30 % في (الأصول البديلة (العقارات، والأسهم الخاصة، وصناديق التحوط).

### تقدم قطري <

وفي تقرير سابق قالت صحيفة ليزيكوالفرنسية إن قطر نجحت في تجاوز أزمة الحصار، حيث رفضت خطة الاستسلام الجيوسياسي المكونة من 13 نقطة والتي طالبت بها دول الحصار ومنها إغلاق قناة الجزيرة،

وتمكن من الصمود بمرونة عالية، وواصلت عمليات التوريد للبضائع والمواد الاستهلاكية، ووجدت طرقاً جديدة لتحقيق اكتفائها الذاتي من خلال التعاون مع عدد من البلدان على غرار الكويت، تركيا، إيران، الدول الأوروبية، المغرب، الهند، الصين، سلطنة عمان. وفي هذا الصدد صرح رجل الأعمال رودي بارودي ليزيكو: "لقد أظهرت قطر صموداً و"تماسكاً وطنياً، ولم تتوقف عن الاستثمار

وبينت الصحيفة أن الدوحة رفعت سقف الملكية الأجنبية في أي مشروع محلي إلى 49%، مقابل 25%، وأطلقت برامج دعم كبيرة للصناعة المحلية، وقامت ببرامج لتحقيق الاكتفاء الذاتي منها إنشاء أكبر مزرعة لمنتجات الألبان في الشرق الأوسط في وقت قياسي لتغطية احتياجات السوق الاستهلاكية، حيث ساعدت هذه التدابير في تجنب النقص والزيادات التضخمية.

وذكرت الصحيفة أنه حسبما ذكر صندوق النقد الدولي في تقرير له في مارس الماضي، فإن تأثير الحصار كان عابراً، لم يتعد كونه انتقالياً، حيث تمكنت المؤسسات المالية القطرية كالبنك المركزي وصندوق الثروة السيادي، وجهاز قطر للاستثمار من ضخ السيولة وحماية الاقتصاد القطري من تداعيات الأزمة الخليجية، كما حققت قطر مرونة اقتصادية كبيرة بفضل إستراتيجيتها في التأثير والتأمين.

---

## Saudi Aramco allows sneak peek into its finances



The world's focus, not surprisingly, has been on Saudi Aramco's \$111bn of net income recorded in 2018, making it the most profitable company in the world. But elements of the upstream story were largely ignored.

For example, the prospectus showed the company's largest oilfield, Ghawar, undershooting what many had thought was its current capacity of around 5mn bl/d, instead coming in at 3.8mn bl/d.

Ghawar has contributed about half of the estimated 150bn barrels of crude that Saudi Arabia has produced to date. Without doubt, Ghawar is an enormous field. Its remaining reserves are put at 48bn bl, so there is still a lot of oil out there, but it will get harder to recover, and require substantive expenditure.

Aramco is developing new fields to plug depletion, with half a dozen expected to come on stream by 2026 – adding an extra 1.25mn bl/d, according to data from consultancy Energy Aspects. Its co-founder Richard Mallinson emphasises that future upstream development is designed to keep things steady “at current capacity levels...Aramco is not talking, as it has done in the past, about possibly raising potential capacity from 12mn bl/d to 15mn bl/d.”

Still, Aramco is not giving up on Ghawar anytime soon. The prospectus says field facilities and infrastructure there

remain a central component in the company's long-term strategic framework.

"The scope of the utilisation and maintenance of the established infrastructure has expanded to be a hub for development of secondary reservoirs and satellite fields," says the prospectus.

The prospectus also shows how it has boosted production at other fields. At Shaybah in the south of the kingdom, and at the offshore Safaniyah field in the Gulf, Aramco reported production was close to double earlier Western estimates. At the Khurais field, near Ghawar in the east of the country, a "mega-project that started in 2009 with initial capacity of 1.2mn bl/d, has hoisted production to 1.5mn bl." In 2018, Aramco produced 13.6mn bl/d of oil, including 10.3mn bl/d of crude.

## **Half a century of reserves**

Overall, Aramco's reserves come in at a similar level to an independent audit published earlier this year: 261.5bn bl of crude and condensate, sufficient for proved reserves life of 54 years, "significantly longer than the 9 to 15 year proved reserves life of any of the five major IOCs based on publicly available information", claims the prospectus. The document also records 36.1bn bl of NGLs and 233.8tn ft<sup>3</sup> of natural gas.

Another scarcely mentioned disclosure in the prospectus was Aramco's shift to lighter-grade oil, in terms of projects that have come on line, and new ones in the pipeline. The question now is the extent to which Aramco can match this type of product to demand in the marketplace. The move to lighter is good in terms of petrochemical demand and positive when gasoline/diesel demand is strong.

The prospectus flags Aramco's rock-bottom cost of production based on a comparison of data of the five major IOCs and other

leading oil and gas companies. The company's "average upstream lifting cost was \$2.80/bl" of oil equivalent produced in 2018. Revenue from upstream operations stood at around \$217bn, while downstream revenue was \$139bn. It had \$86bn in free cash flow at the end of 2018, with minimal debt.

But all that glistens is not gold. Aramco may be the world's most profitable oil company, producing more than 10pc of global crude, but the prospectus shows the state's reliance on the company means it generates less per barrel than privately-owned competitors. Riyadh relied on the oil sector for 63pc of its total revenue in 2017, according to the prospectus. In 2018, Aramco paid about \$160bn to the government in dividends, taxes and royalties.

## **Top credit rating**

The transfer of funds from Aramco to the kingdom meant the oil company made about \$26/bl last year, compared with \$38/bl for Shell and \$31/bl for Total. That's why Moody's and Fitch assigned the company ratings of A1 and A+, respectively, arguing the government's reliance on the oil producer to fund its budget acted as a cap on its creditworthiness. ExxonMobil is rated AAA by Moody's.

The linkage between the state and company is an important one in the debate about whether Riyadh really does intend to float a minority stake in Aramco in 2021. Investors worry about the government's control over the oil giant and whether future decisions will be made for the benefit of the state or shareholders.

Andy Critchlow of S&P Global Platts says "investors may be cautious about an IPO because of uncertainty linked to sovereign risk and the kingdom's future potential financing needs [particularly if prices crash due to a swifter switch to green technologies]".



In the interim, the company is shoring up its defences in an uncertain world. It plans to double its refining network, mostly outside the country. The idea is to feed about 50pc of its oil into its fully-owned or joint-venture refineries, making it the largest consumer of its own crude. The prospectus states categorically that refinery expansion was a means “to secure crude oil demand by selling to its captive system” of refineries.

Also revealed is the way Aramco ensures it always has enough spare capacity up its sleeve. The aim is to have “the average maximum number of barrels per day of crude oil (MSC) that can be produced for one year during any future planning period”.

## **Sovereign wealth boost**

As of 31 December 2018, MSC stood at 12mn bl/d of crude. Spare capacity afforded by maintaining MSC enables the company “to increase production above planned levels rapidly in response to changes in global crude oil supply and demand”.

Saudi Arabia is drawing on Aramco’s cash to bolster its sovereign wealth fund to develop new industries to break the kingdom’s reliance on oil. It is also trying to extract more profit from the crude it pumps by turning it into gasoline and diesel, as well as plastics and other materials used in consumer goods. The \$69bn purchase of Sabic was a case in point and a major factor behind the bond offering.

The aim is to provide more cash for the Public Investment Fund, the kingdom’s sovereign wealth fund, to invest both internally and overseas to wean Saudi off its addiction to fossil fuels. It is a race against time as the bond prospectus indirectly acknowledges via its references to risk factors that span climate change, among others. And that raises, once again, the issue of an IPO down the line in which the Saudis would like to raise a cool \$100bn.

A listing may be better sooner than later if you believe in the relentless switch to cleaner fuel sources. That said, traders are wondering whether Aramco and Riyadh really need the money.

After all, have they not demonstrated how easily they can tap the bond markets for credit?

Scott Modell, head of geopolitical risk at Washington-based consultancy Rapidan Energy, disagrees with this thesis. "An IPO is necessary [otherwise MBS's] ambitious Vision 2030 programme designed to reduce oil dependence [could end up becoming] Vision 2130," he says. "And for that reason, the IPO [postponed last year] is certainly back on the table."