

Gushing European energy IPO pipeline faces muted investor appetite



Norway's Okean, 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.”

Higher gas prices, North Field production boost Qatar account surplus: World Bank



Qatar's current account surplus increased to 8.7% in third quarter of 2018, from less than 4% in 2017 due to higher gas prices and production from the North Field, the country's biggest gas repository, according to the World Bank.

Qatar, the largest LNG exporter globally, had seen its goods export earnings rose by 25% in 2018, World Bank has said in its recent "Economic Update."

The country's public finances have improved, supported by the recovery in energy prices, and Qatar is expected to post a small fiscal surplus in 2018, the first since 2014. A large public investment programme for 2014-2024 has been pared back, with FIFA 2022 projects given priority.

Qatar's withdrawal from the Organisation of the Petroleum Exporting Countries (Opec) in January 2019, after six decades of membership, has not had a major impact since Qatar was one of the smallest members of the group, making up less than 2% of Opec's total oil production, World Bank noted.

The World Bank said Qatar's "outlook remains positive" with growth expected to rise to 3.4% by 2021 driven by higher service sector growth as the FIFA World Cup draws nearer. In

addition, higher infrastructure spending on the Qatar National Vision 2030 projects aimed at diversifying the economy should help offset falling investment spending on FIFA projects.

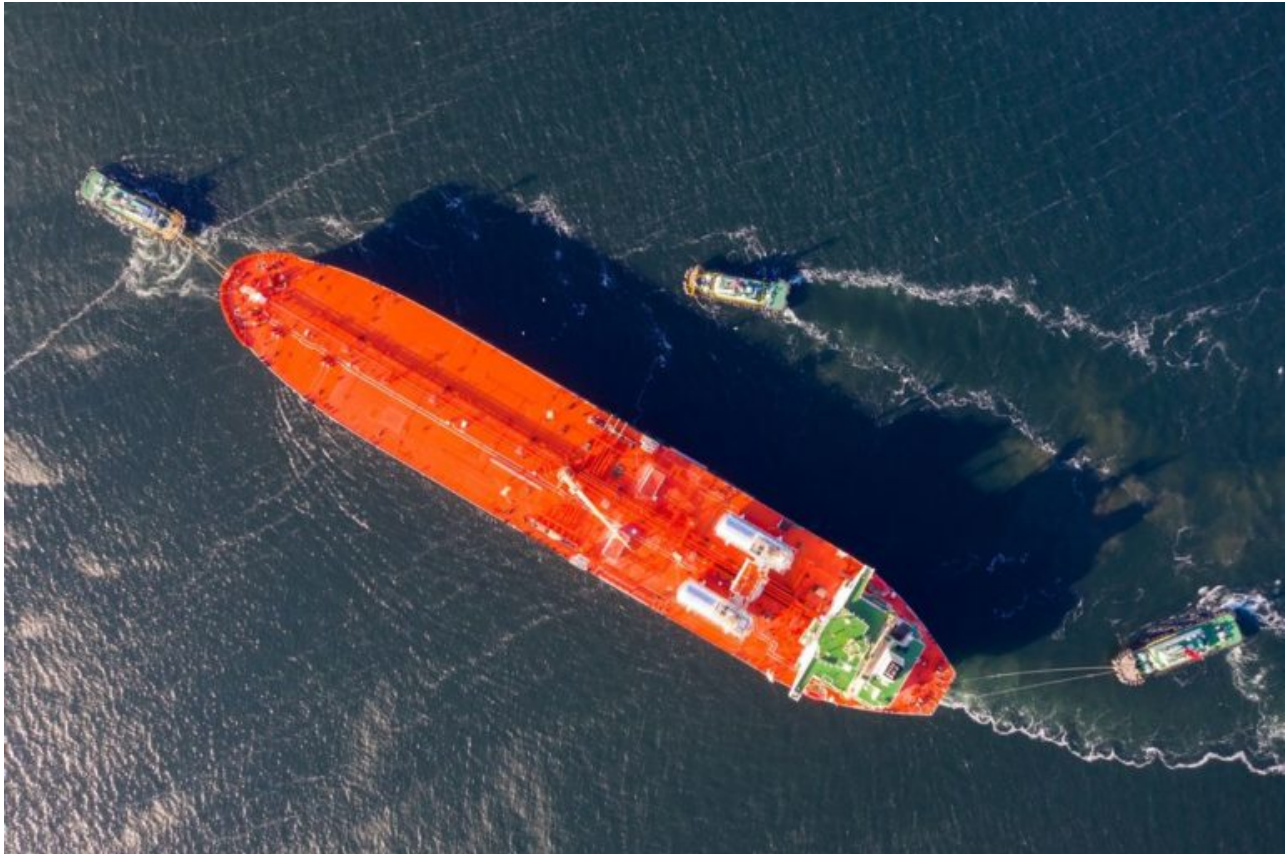
The hydrocarbon sector growth is also expected to pick up as the Barzan natural gas facility comes online in 2020, and as the expansion of the North Field gas projects is completed by 2024. Monetary policy is expected to gradually tighten as the Qatar Central Bank resumes raising interest rates to restore the spread versus US policy rates, and to attract FX inflows into the banking system. Public finances are expected to remain in small surplus, supported by recent tax reforms and the introduction of a VAT over the medium term, the World Bank said.

A recovery in imports, driven by capital goods related to infrastructure spending, should keep the current account surplus in single-digits (in contrast to surpluses of over 30% prior to 2014).

Qatar's economy has largely overcome the constraints posed by the "continuing diplomatic rift" with GCC (Gulf Co-operation Council) neighbours, the report noted.

"Nevertheless, a resolution of this situation would help boost investor confidence. Key external risks include risks of volatility in global energy prices, regional instability risks, and global financial volatility that affects capital flows and costs of funding although these are mitigated by the return to fiscal and current account surpluses," the World Bank said.

LNG Ships Are Turning Away From Europe's Gloomy Gas Market



A tanker traveling from the Arctic region to Belgium with a cargo of Russian liquefied natural gas was instead sent to Israel at the last moment.

The British Diamond changed destination just before arriving, indicating how quickly natural gas traders need to act in a market where healthy inventories and supply have sapped prices to near their lowest in almost a decade. It may well be a sign of things to come for the rest of the summer, as the Asian benchmark Japan-Korea marker widens its premium to its European Title Transfer Facility counterpart and Middle East demand for cooling increases.

“You can see room for more diversions. It’s hard to believe JKM will strengthen any time soon, but TTF could weaken

further as European stocks are full,” said Jean-Christian Heintz, head of LNG broking at SCB Brokers SA in Nyon, Switzerland. “It might rapidly become more attractive for cargoes to go to India and southeast Asia – they could be good opportunistic buyers in coming weeks.”

Two other tankers with gas from Russia’s Yamal LNG project have gone on month-long journeys to China rather than stop in Europe in recent weeks. That’s not surprising as even a heatwave last week was unable to prevent the rapid refilling of storage sites, which are 74% full, about 17 percentage points above their five-year average.

“If the demand-side response is not enough, prices will then need to fall to the point where either more power demand appears, or supply starts to be choked off,” Energy Aspects said in a note. “Either way, that would mean prices moving downwards from current levels.”

As European inventories are filling rapidly, traders may start looking at filling underground storage in the U.S. or choose to float cargoes on the water, according to Energy Aspects. The latter is looking attractive as prices for months later in the year are higher than for next month, known as a contango.

And the demand for power generation may also be limited. Even with natural gas becoming cheaper in the region than lignite for the first time ever, increased generation from renewables will probably curb the extra European demand, according to BloombergNE.

U.S. LNG cargoes may also prefer to go to Asia, supported by a wider inter-basin freight differential. With increasing volumes from new plants in the U.S. and Russia and a premium required to return empty ships after unloading in Asia, west of Suez shipping rates are higher.

One Yamal cargo is taking this season’s first voyage from Siberia via the Northern Sea Route to Asia, while

transshipments of the project's cargoes in northwestern European ports are also on the rise.

The question remains whether a few cargoes being sent to Asia rather than unloaded in the oversupplied European market will relieve the glut. Record LNG deliveries flooded liquid northwestern European markets in March and April, and while the wave has since subsided, shipments remain strong.

"At a certain point the market should regulate itself, if you see some supply going to Asia, it should help rebalance," Heintz said. "Storages are so full that just a few cargoes less may not be enough to change the picture."