

Saudi bulls retreat as Aramco letdown adds to policy shocks



Bloomberg/Dubai

The Arab world's biggest bourse is losing its appeal to foreigners just two months after it won inclusion in MSCI Inc's emerging-market index.

That's because the initial euphoria surrounding Crown Prince Mohammed bin Salman's efforts to overhaul the nation's economy has given way to scepticism as the kingdom put on hold the initial public offering of oil giant Aramco.

A dispute over Canada's criticism of the jailing of Saudi rights activists has also heightened concerns over the prince's increasingly assertive policy and the impact it would have on capital flows.

Overseas money managers turned net sellers of Saudi stocks in six of the past eight weeks after MSCI said it will include the country in its emerging-market equity indexes starting June 2019.

Global factors, including the roll-back of crisis-era stimulus and a global trade skirmish, have also dented demand for

riskier assets.

The selling in Saudi stocks by foreign investors has become more widespread, reflecting concerns “about stalling or even reversed reforms,” said Marshall Stocker, a Boston-based portfolio manager at Eaton Vance Corp whose fund isn’t invested in the kingdom. “Until we see a commitment to firmly adopting policies which lead to an increase in economic freedom, we doubt the Saudi Arabian equity market will outperform.”

Overseas investors pulled a net 660.6mn riyals (\$176mn) from Saudi equities in the eight weeks ended August 16.

In contrast, they had poured \$153mn in the eight weeks leading up to MSCI’s announcement.

The oil-rich kingdom’s key stock index has dropped 5.8% from a peak in July, curbing its advance this year to 11%.

While its 2018 gain is considerable compared to the almost 8% drop in emerging-market stocks, the gauge is lagging measures in neighbouring Qatar and Abu Dhabi.

Saudi Arabia had gone to great lengths in recent months to suggest that change may now be in the air, giving women the right to drive and reopening cinemas. But in recent months, women’s-rights activists have been imprisoned and prosecutors are currently seeking to behead Israa al-Ghomgham, who participated in anti-government protests in the eastern part of the country. Then there’s the kingdom’s clash with Canada.

Saudi Arabia froze diplomatic ties and new business deals with the North American nation this month for criticising its treatment of women activists. The decision to shelve Aramco’s IPO – billed as potentially the world’s biggest – in part reflects the kingdom’s much stronger fiscal position, given the government’s spending reform and rise in

Tug of war for oil sector looking to feast after famine



STAVANGER, Norway (Reuters) – After years of restraint since crude prices slumped in 2014, oil services companies are now at loggerheads with producers as they battle for what they see as a fair share of the sector recovery.

Oil industry suppliers say they have cut costs and prices to the bone and the recent rebound in crude justifies better rewards for anything from rigs to logistics and engineering services.

Their overtures have met with stubborn resistance from producers. But there are increasing signs that something has to give, including recent strikes at North Sea platforms.

“The cost savings that we have achieved over the past three years are not sustainable,” said Thierry Pilenko, Executive Chairman of TechnipFMC (FTI.N), one of the world’s biggest oil services groups.

“A rig that was once at \$600,000 day is now at \$150,000, which

is not even cash breakeven,” he added, referring to rig rental rates. “Cost inflation will come back ... The drilling industry working below breakeven is not sustainable.”

The oil market is cyclical by nature – if crude prices fall, so does investment and then output, which in turn drives up prices – and oil services companies ride the rollercoaster by using the upturns to raise their prices to offset the downturns.

Global exploration and production spending shot up by a quarter in 2005, fell 8 percent in 2009, jumped by about 12 percent two years later and then tanked by more than a fifth in 2016, according to data from consultancy firm Rystad Energy.

Consequently, average rig rates that were about \$200,000 for a floating rig in 2005 more than doubled by 2012 and then fell to about \$160,000 last year, Rystad said.

“It is still a feast or famine cycle,” the CEO of oilfield services group Baker Hughes (BHGE.N), Lorenzo Simonelli, told an industry conference in the Norwegian oil capital of Stavanger.

After benchmark oil futures contracts LC0c1 slumped from more than \$110 a barrel in 2014 to less than \$30 in early 2016, oil producers cut spending drastically and promised shareholders that cost discipline was here to stay.

GRAPHIC – Boom and Bust Cycles of Oil Services Sector: tmsnrt.rs/2wppPke

Signs of rising rates have begun to emerge in the United States, but oil producers are loath to put the genie back in the bottle.

“There might be pressure on costs, but we will never forget what we have learned,” Equinor Chief Executive Eldar Saetre

told the Stavanger conference.

Indeed, Equinor's announcement on Tuesday that it plans to drill 3,000 production and exploration wells off Norway during the next two decades came with a caveat.

"There is no room for cost inflation in those plans," said Arne Sigve Nylund, head of Equinor's Norwegian operations.

"We need to deliver at the same level we are now ... I call on suppliers to work with us on how to deliver at the lowest possible cost."

COLLABORATIVE APPROACH?

But with oil now trading around \$75 a barrel, strikes at several of Total's (TOTF.PA) North Sea offshore platforms are testimony to an industry wrestling with keeping efficiencies high and costs down.

The way contracts are structured between producers and services will be key to the future level of costs.

"There is a big dichotomy now. Some of the contractors are expecting to see price increases. They are almost saying 'it's my turn now'," Luis Araujo, CEO of oil services company Aker Solutions (AKSOL.OL), said.

"I don't buy into that. I think we should work together."

Araujo pointed to clients such as Aker BP (AKERBP.OL) offering contracts more akin to "incentive schemes" than ways to squeeze margins.

"In the future, maybe suppliers are going to get paid by performance. So instead of getting paid by the daily rates, (you) will be paid by how many meters you can drill."

Equinor's Saetre put it even more succinctly at the Stavanger conference, with the words of U.S. rock star Bruce Springsteen

emblazoned on the big screen: “Nobody wins unless everybody wins.”

But given oil producers’ own constraints, the message might not have trickled through quite yet.

“We have to be a bit cautious because the guys doing the presentations are the leaders. But then there is the next layer in line who are being educated to squeeze suppliers and not collaborate,” Araujo said.

Gazprom Q2 profit jumps to \$3.8bn on rising energy prices, sales



Petrofac

Russian gas giant Gazprom reported a surge in second-quarter net profit, beating analysts' expectations, as it benefited from rising energy prices.

It said second-quarter net profit jumped to 259bn roubles (\$3.8bn), from 48bn roubles in the year-earlier period and above a forecast of 228bn roubles in a Reuters survey of analysts. Gazprom's shares were up 1.1% after the results, outperforming the broader Moscow stock market, which was 0.8% higher. Gazprom shipped more than 101bn cubic metres of natural gas to the EU and Turkey in the first half of the year, up 6% year-on-year and accounting for around a 34% share of Europe's gas market. It said its average gas export price rose by a quarter to 13,858 roubles per 1,000 cubic metres in the first half of this year. Total sales in April-June increased to 1.83tn roubles, from 1.39tn roubles in the second quarter of 2017.

Petrofac Profits at UK oilfield services provider Petrofac Ltd rose 20% in the first half of 2018 as a recovery in global crude prices drove activity, although the company said it remained some way off being able to raise prices.

The results bode well for a refocusing on core business after a difficult period marred by investments in production that fell afoul of the 2014 collapse in oil prices. The company's main measure of profit rose to \$190mn compared to \$158mn a year earlier, excluding a \$207mn charge for losses on oil asset sales and helped by some of its remaining upstream businesses swinging into the black. Chief financial officer Alastair Cochran told Reuters that Petrofac would continue on a course that has seen it agree sales of \$800mn in mostly oil-producing assets this year. "We are delivering on that core strategic ambition of reducing capital intensity (and) ... the capital-intensive businesses in Petrofac are the IES

(Integrated Energy Services) upstream businesses,” he said. “There is not much left in the portfolio once we complete these divestments.” Petrofac shares fell 41% last year, but have rebounded 30% this year as chief executive Ayman Asfari delivered on his promise to get back to basics. He has been helped by a tripling of oil prices since 2016.

“Petrofac had a helping hand from higher oil prices in the first half of the year,” said Nicholas Hyett, equity analyst at Hargreaves Lansdown. “That’s not really how it’s meant to work as a services business, but Petrofac actually has a decent slug of oil and gas assets of its own – \$794mn to be exact.” Cochran echoed comments from larger rival Wood Plc last week on weak pricing outside the booming US shale sector, saying Petrofac expected no near-term increase in prices.

The company, which designs, builds, operates and maintains oil and gas facilities, said its order book had risen 22.2% to \$3.3bn at the end of the first half. It said it was looking at bidding opportunities of about \$34bn in the next 12 months.

Lukoil Russia’s second-largest oil producer, Lukoil, reported a 20% rise in second-quarter net profit helped by stronger oil prices and a weaker rouble. Net profit came in at 167.3bn roubles (\$2.5bn) for the second quarter. Analysts, polled by Reuters, had expected a net profit at 171bn roubles. Lukoil, controlled by Vagit Alekperov and his deputy Leonid Fedun, said its earnings were supported by higher sales despite a decline in oil production after a global oil deal to curb output. Sales in the second quarter increased to 2.06tn roubles, from 1.36tn roubles a year earlier. Earnings before interest, taxes, depreciation and amortisation (EBITDA) rose to 295.2bn roubles, from 179bn roubles in the same period of 2017. Lukoil also said its adjusted free cash flow jumped in the April to June quarter by more than 65% to a record 152bn roubles.

Maersk Drilling strong enough to stand on its own after listing: CEO



STAVANGER, Norway (Reuters) – Drilling rig contractor Maersk Drilling [IPO-MAER.CO] will provide strong competition for its peers when it is spun off from the A.P. Moller-Maersk (MAERSKb.CO) conglomerate next year, its chief executive said on Tuesday.

A.P. Moller-Maersk said on Aug. 17 it would spin off its offshore drilling operation and list it in Copenhagen next year, the latest move by the Danish shipping company to focus entirely on transport and logistics.

“We will be one of the strongest (players) when it comes to the balance sheet, we will be one of the strongest when it

comes to the backlog (of orders)," Maersk Drilling Chief Executive Joern Madsen told Reuters on the sidelines of an energy conference in Stavanger, Norway.

"We will be able to compete with the rest of the crowd," he said.

Maersk Drilling counts BP (BP.L), Aker BP (AKERBP.OL), Equinor (EQNR.OL) and Total (TOTF.PA) among its biggest customers.

News of the listing came after the conglomerate tried to find a buyer for the unit, whose competitors include Transocean (RIGN.S), Seadrill SDRL.OL and Odjfell Drilling (ODLL.OL).

Madsen reiterated on Tuesday that Maersk had "looked at various options" but did not provide further details about the process.

"At the end of the day, it gives shareholders an opportunity to be a part of a potential (rig market) recovery... I'm very happy about the decision myself," he said.

Maersk has not publicly put a price tag on the drilling division, but analysts have previously valued it at around \$4.8 billion.

Maersk Drilling reported a 2 percent increase in second-quarter EBITDA to \$159 million, as sales grew around 5 percent in the quarter to \$366 million.

An outright sale of Maersk Drilling has been made difficult by oversupply in the drilling rig market, which has yet to recover despite a rebound in oil prices.

Maersk Drilling fleet utilisation rates stood at around 61 percent for floating rigs and 71 percent for jack-up rigs, below levels of around 85 percent which historically gave rig owners the power to increase rates.

"Our customers are talking about longer drilling programmes

and that is normally an indication that something is on the rise,” Madsen said, adding that the market consensus was for rates in the drilling industry to rise towards 2020.

However, he said he expected the industry’s business model to change in the future, moving away from dayrates to more closer cooperation with its customers.

“I don’t think we are going to see that the industry only remains with the dayrate model... We will see more and more oil companies come out and say ‘We want to work closer with you as a contractor and we want you to share with us the risk and the upside’,” he said.

Madsen said the company currently didn’t plan to expand its fleet or change its composition, two-thirds of which are jack-up rigs which drill in shallow waters while the rest are floating rigs.

Saudi Aramco loses its ‘in perpetuity’ oil and gas rights



Anjali Raval, Senior Energy Correspondent AUGUST 27, 2018

Saudi Arabia has cut the length of time that its state energy company has exclusive rights to the kingdom's vast oil and gasfields, raising questions about Saudi Aramco's long-term production and revealing a power struggle between the company and the government. Saudi Aramco's concession agreement with the state has limited the amount of time in which the group can explore and develop resources to 40 years – from a previous contract that gave it access in perpetuity.

There will be an option to renew the contract. The move, three people briefed on the matter said, came as part of the kingdom's preparations for a stock market flotation of Saudi Aramco, which has been indefinitely delayed.

Energy minister Khalid al Falih, chairman of Saudi Aramco and former chief executive of the company, has insisted the kingdom is committed to a listing, despite mounting signs that the country is unable or unwilling to execute the flotation. Mr Falih said last week that a new concession contract had been agreed as part of the initial public offering process, which also included overhauling Saudi Aramco's financial reporting and undertaking an independent audit of its energy

reserves, without disclosing terms. The Saudi energy ministry told the FT that the new contract was “one of several important steps undertaken to prepare Saudi Aramco for being listed”, adding that the government was committed to “proceeding with the IPO, when conditions are optimum, at a time of its choosing”.

The legal change sought to formalise the relationship between Saudi Aramco and the state, ahead of opening up the company to potential foreign investors, the three people said. It also suggested that the ambitions for a listing were for a sale of more than 5 per cent of the company. With the listing halted, those close to the company said it had been a pointless exercise that had only served to exert ministerial control over Saudi Aramco, which had fought to keep its rare evergreen contract. The government initially pushed for an even shorter contract – more in line with international oil companies that have 20-year agreements. But this would have had ramifications for what the company could declare as its reserves, long-term development plans and its valuation. Some energy sector experts have asked if the concession agreement could prompt Saudi Aramco to produce oil at a faster rate. Others have suggested it could signal a move by the government to alter its output policy, with the industry expecting demand for crude to peak in the coming decades. Recommended Lex Saudi Aramco IPO: the Empty Quarter “Often for oil companies, the shorter the concession, the sooner you must produce the resources,” said John Lee, professor at Texas A&M University. “It has always been a huge advantage to have a concession without any expiry.” However, a 40-year concession is still longer than most energy sector contracts and, with Saudi Aramco the country’s main revenue generator, there is no sign yet it would not be renewed. People close to Saudi Arabia’s energy minister said that output policy should remain unaffected. They added that the kingdom, as the ultimate shareholder, already had the power to dictate big changes in energy strategy without the legal change, which they said was

a procedural matter.

The climate fight's next turning point



(MENAFN – AzerNews) ByPatricia Espinosa and Anne Hidalgo

Next month, the Global Climate Action Summit one of the largest international gatherings on climate change the world has seen will be held in San Francisco. The event, whose theme is 'Take Ambition to the Next Level, aims to serve as a launchpad for accelerated action that will enable the world to meet the goals set by the 2015 Paris climate agreement. It is a golden opportunity to make progress in the effort to combat global warming, but it can be seized only with the involvement of all stakeholders.

With the Paris climate agreement, the international community agreed to limit the rise in average global temperature to 2° Celsius and ideally 1.5°C above pre-industrial levels. To that

end, national governments were tasked with developing their own climate-action plans, called Nationally Determined Contributions (NDCs).

But national governments cannot do it alone. Everyone including those at all levels of government, as well as business leaders, investors, and civil society must contribute. This calls for a new form of inclusive multilateralism one that can also be applied to achieving the Sustainable Development Goals, which complement the Paris agreement's commitments.

It is a tall order, but there is plenty of reason for optimism. There is unprecedented global momentum to build a low-carbon, climate-secure future, characterized by a dynamic green economy, a thriving society, and a healthy environment.

Globally, renewable power accounted for 70% of net additions to power-generating capacity in 2017, according to the Renewables 2018 Global Status Report . Moreover, as part of the Under2 Coalition, over 200 states, regions, and local authorities have committed to cut their greenhouse-gas emissions by at least 80% below 1990 levels by 2050.

Urban centers are also proving their capacity for climate innovation and leadership. New York City has mandated the retrofitting of 14,500 of the city's most polluting buildings. Shenzhen has become the first city in the world with a fully electric bus fleet. Curitiba, Brazil, has introduced a new model of urban food production. And Oslo has created a climate budget to guide financial decision-making.

At the business level, more than 700 companies with a total market capitalization of over \$16 trillion have made far-reaching climate commitments, according to the We Mean Business Coalition. And 289 investors , holding nearly \$30 trillion in assets, have signed on to Climate 100+, a five-year initiative to engage with the world's largest corporate

greenhouse-gas emitters to improve governance on climate change, curb emissions, and strengthen climate-related financial disclosures. As a result, global green bond issuance could reach \$300 billion this year.

Yet we are far from being in the clear. Scientists agree that global carbon dioxide emissions must reach a turning point in 2020 if we are to achieve carbon neutrality (with emissions low enough to be safely absorbed by forests, soils, and other natural systems) by mid-century. So far, nearly 50 countries have or may have reached their emissions peaks, and more may soon join their ranks. This is progress, but it is not enough.

In fact, greenhouse gases in the atmosphere are still accumulating at a rate that will soon take us well above the 1.5°C threshold, beyond which some of the worst effects of climate change cannot be staved off. Extreme weather already is becoming more common, as exemplified by record-high temperatures worldwide this year. On current trends, average global temperatures could well rise by 3°C, imperiling vital natural systems like coral reefs, rainforests, and the polar regions.

All relevant stakeholders need to strengthen their climate commitments. To kick-start that process, the Global Climate Action Summit and its partners have issued a wide array of new challenges, including zero-waste goals in cities, a target of 500 companies adopting science-based targets, and initiatives to accelerate uptake of zero-emission vehicles.

Such efforts would not just protect our environment; they would also boost our economies. A recent report by the New Climate Economy suggests that, in transportation alone, a low-carbon transition would create 23 million jobs worldwide annually.

Perhaps more important, a show of climate-action ambition from leaders across sectors would likely inspire national

governments to increase their own NDCs ahead of this December's United Nations Climate Change Conference in Poland, where governments will finalize the implementation guidelines of the Paris agreement.

Acting alone can be difficult. Acting in concert can inspire and enable all participants to do more. And if we are to leave a healthy planet to future generations, more is what we need.

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Novatek starts Yamal's 2nd LNG train, sends condensate to Mideast



NOVATEK



Russia's Novatek has launched a second liquefied natural gas (LNG) production train at its plant on the Yamal peninsula ahead of schedule, as Moscow tries to become a significant global player on the super-cooled-gas market. Novatek, which controls Yamal LNG in which France's Total along with China's CNPC and the Silk Road Fund are minority shareholders, said the launch was made six months ahead of its initial schedule. Yamal ships LNG to Asia and Europe. Along with LNG, the Yamal plant is producing gas condensate, a type of light oil, which can replace some Iranian supplies to Middle Eastern companies as the US reimposes sanctions on Tehran, trading sources said. The second LNG train's annual capacity is 5.5mn tonnes, which will double Yamal's output. Novatek is also building a third production train which is expected to be launched next year, raising annual LNG output to 16.5mn tonnes. Novatek's chairman and co-owner Leonid Mikhelson said yesterday that the two Yamal LNG trains represent around 3.5% of the global LNG market, a growing area for the world's energy producers.

"Our strategic goal is to produce between 55mn and 60mn tonnes annually by 2030," Mikhelson said in a statement. Novatek is also planning to launch its second LNG plant, Arctic LNG-2, after 2020. The launch of the second LNG train comes just days after China proposed tariffs on US liquefied natural gas, widening the trade war between the two countries. In July, Novatek delivered the first LNG cargo to China via the Northern Sea Route alongside the Arctic coast, which drastically cuts delivery time to Asia. CNPC plans to start

lifting at least 3mn tonnes of LNG from Yamal from 2019. At its peak, Yamal will produce over 1mn tonnes of gas condensate a year and Novatek has ordered special vessels for these shipments. In the first six months of the year, Novatek, which is Russia's largest private gas producer, shipped 234,000 tonnes of Yamal condensate, selling the first cargo to commodities trader Vitol via a tender earlier this year. According to Reuters data and two trading sources, Emirates National Oil Company (ENOC) has bought around 37,000 tonnes of condensate via a tender from Yamal – that cargo was loaded on a tanker at Yamal's Sabetta port at the end of July.

Iran has been one of the key gas condensate suppliers to ENOC but further exports could be complicated with sanctions due to be reimposed on Iran's energy sector on November 4. One of the trading sources said he believed that ENOC was making a test purchase of the Yamal condensate ahead of the sanctions coming into force.

'Europe serious about getting more US LNG'



An LNG carrier sits docked at the Cheniere Energy terminal in this aerial photograph taken over Sabine Pass, Texas (file). European nations are far behind Mexico and China when it comes to receiving liquefied natural gas from the US, but the region is making its biggest effort to date to change that, according to Bloomberg. European Commission trade officials will travel to Washington on August 20 to follow up on an energy agreement last month between the Commission's President Jean-Claude Juncker and US President Donald Trump. Europe pledged to import more LNG in a bid to diversify imports, while America is seeking new markets for its expanding LNG production. Russia is currently Europe's biggest supplier. "The European Union is ready to facilitate more imports of liquefied natural gas from the US and this is already the case as we speak," Juncker said in a statement yesterday. "The growing exports of US liquefied natural gas, if priced competitively, could play an increasing and strategic role in EU gas supply." Europe received about 10% of total US exports last year, up from 5% in 2016 after the American shale gas revolution went global with the opening of the Sabine Pass export facility on the country's Gulf of Mexico coast. Since then, Europe has imported more than 40 LNG cargoes from the US, or 2.8bn cubic metres, the Commission said.

Qatar to invest \$15 billion in Turkey; source says banks the focus



ANKARA (Reuters) – Qatar pledged \$15 billion (£11.8 billion) of investment in Turkey on Wednesday

that a government source in Ankara said would be channelled into its banks and financial markets.

The investment package was announced after Qatar's Emir Tamim bin Hamad Al-Thani met President Tayyip Erdogan in the capital, as Turkey grapples with a collapsing lira and a worsening commercial and political standoff with NATO ally the United States.

The currency has lost nearly 40 percent against the dollar this year, driven by worries over Erdogan's growing influence on the economy and his repeated calls for lower interest rates despite high inflation.

Its precipitous decline has raised concerns about the resilience of Turkey's banking sector and caused ructions on global markets.

Qatar-Glencore venture values its Rosneft stake at 7.4 billion euros



MOSCOW (Reuters) – QHG Oil Ventures, a joint venture between Qatar Investment Authority and Glencore, has valued a 14.2 percent stake in Rosneft, which it is selling, at 7.4 billion euros (\$8.4 billion), a QHG financial statement showed on Wednesday.

QHG was set up by QIA and Glencore in 2016 to invest in Rosneft and it bought a 19.5 percent stake in the Russian company for 10.2 billion euros. In its statement on Wednesday,

QHG said that stake was now valued at 10.4 billion euros, meaning it has changed little in value in two years.

QHG also said in the financial statement, which covered the period between Dec. 8 2016 and May 31 2018, that it made a profit of more than 672 million euros during that period, mostly from Rosneft dividends.

The 2016 sale of the stake in Rosneft was trumpeted by the Kremlin at the time as a landmark deal and vote of confidence in the Russian economy, despite Western sanctions.

But the deal, from the outset, was mired in unanswered questions about how it was structured.

After the transaction was announced in 2016, it transpired that it was only an interim deal, and that a long-term buyer for the stake had yet to be found.

Rosneft came close to concluding a deal with China's CEFC last year, but that deal ran into trouble after CEFC founder and chairman Ye Jianming was put under investigation by Chinese authorities over suspected economic crimes, Reuters reported in March.

Eventually Qatar's investment fund agreed to become the permanent owner, resulting in the sale agreement in May.

In its financial results, QHG said it expected that deal to complete by the end of this year.

QIA would eventually control an equity stake of 18.93 percent in Rosneft and Glencore would hold 0.57 percent.

On Dec. 7 2016, when the deal to sell 19.5 percent in Rosneft to Glencore and QIA was announced, Rosneft's shares were trading at around 356.3 roubles (4.7 euros) per share compared to 427.1 roubles on Wednesday.