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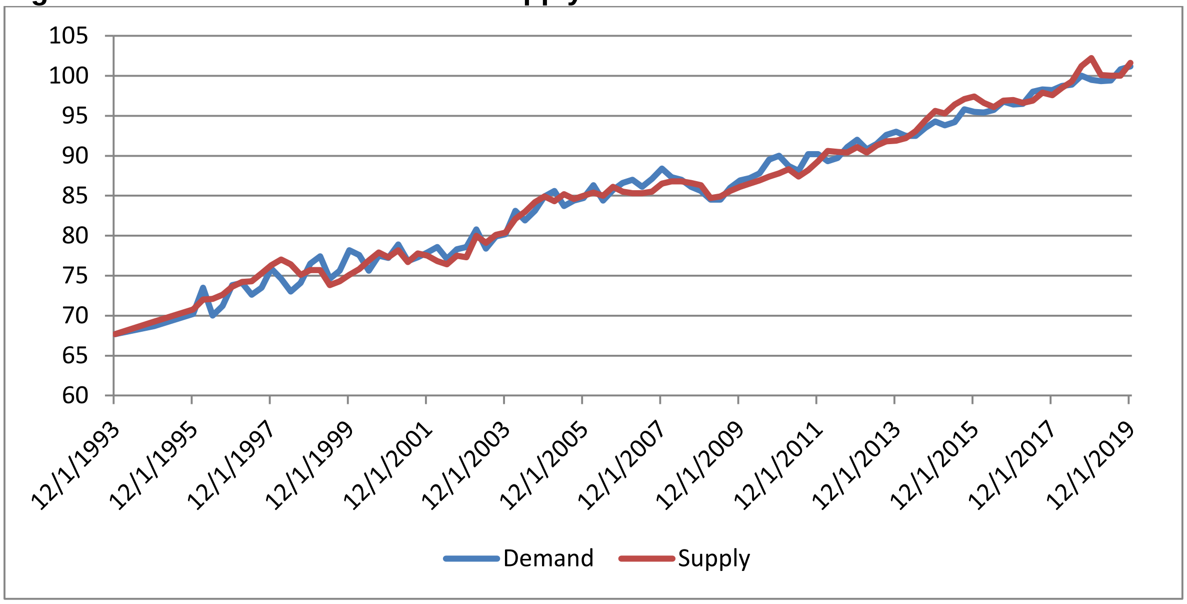
The Collapse of Crude Oil Prices and Its Implications to Malaysia Oil and Gas Industry

Figure 1: Oil and Gas demand and supply



Source: Upstream

Figure 1 shows the global demand and supply for Oil and Gas (O&G) from 1993 to 2019. For the past 20 over years, the spread between demand and supply has been very consistent. However, things will be different for year 2020 due to COVID-19 virus which dampen the demand and the oil war between Saudi Arabia and Russia which disrupt the supply chain and this will lead to a major disparity in the demand and supply for O&G. According to International Energy Agency (IEA), global oil demand could drop as much as 20 million barrels per day or 20% of total demand as 3 billion people are currently in a lockdown because of the coronavirus outbreak. On the supply side, Saudi announced that they would launch a program to boost oil production for the first time in more than a decade to 13m bpd for 2020 from 9m bpd in 2019. UAE will also accelerate their plans to raise production to 5m bpd for 2020 from 4m bpd while Russia also announced that they would increase its oil production by additional 500k bpd. This will put majority of the O&G players in a very bad situation where O&G companies have to cut their capital expenditure (capex) as shown in Figure 2 to stay afloat.

The cost of production per barrel for Saudi is less than USD10 and for Russia is around USD10 while for US shale oil, the cost of production is between USD39-USD48/bbl. Hence US shale oil producers will get hit the most by the depreciating oil prices. Russia has made no secret to the fact that they are concerned about the growth of the US shale oil industry. They view that the repeated output cut by OPEC and OPEC+ were effectively handing over the market share to US producers. Hence Russia's rejection of Saudi's push for additional oil production cuts prompted Saudi to retaliate by flooding the global with oil-market war. Russia is planning to bankrupt US shale producers and as soon as U.S. shale leaves the market, prices will rebound and could reach USD60 a barrel, Rosneft's Igor Sechin (CEO of Rosneft) said recently.

Figure 2: Major Capex cut by O&G companies

EMEA oil, gas company spending reactions to price rout

Company	2020 action	Detail
BP	Flexibility' to cut 20% from 2019 capex of $15.3 billion	Cuts likely focussed on US shale
Shell	20% capex cut to $20 bil or below. Up to $4 bil of opex cuts over 12 months.	N/A
Total	20% organic capex cut to less than $15 billion. $500 mil of extra opex cuts	Focussed on 'short-cycle, flexible' capex
Eni	Considering 'strong' reduction in capex, opex	To provide details at Q1 results on April 24
Saudi Aramco	Capex guidance cut 25-29% to $25-30 bil	Optimized' spending to boost oil, gas production
Sonatrach	To halve capex to $7 billion	N/A
Tullow	30% capex cut to $350 million. 45% reduction in exploration budget	Production target confirmed at 70,000 – 80,000 boe/d
DNO	30% capex cut or $300 million	Suspending discretionary drilling and projects outside Kurdistan
Wintershall	20% cut in planned capex to 2019 levels of $1.3 bil	Targetting 600,000-630,000 boe/d 2020 production excluding onshore Libyan volumes
Aker BP	20% capex cut compared to previous guidance of $1.5 bil	Near-term output unchanged, but new projects/exploration deferred
Premier Oil	Targetting $100 mil in cost savings	N/A

Source: spglobal

Hence we viewed that both Saudi and Russia are trying to weaken US shale oil producers as the bankruptcy risks in the US shale sectors are rising, coupling with weak oil prices and tightening access to credit worsening the outlook for some producers just as a “staggering” USD86bn in debt maturities start to come due. Independent US shale producers are restructuring billions of dollars of debts or discussing new ways to stay afloat as collapsing oil price has threaten bankruptcies across the entire shale industry. We might see some of the big shale producers will be out of business by the next few quarters if the oil price continues to stay below USD30/bbl.

Petroliam Nasional Berhad (Petronas) announced on 11 March 2020 that they will continue its domestic capex programme of RM26b to RM28b for 2020 despite the slump in oil price. We doubt that Petronas will maintain its capex programme since the oil price had fallen below USD30/bbl. However, if Petronas were to maintain its capex programme, the O&G companies under the umbrella contracts will continue to generate consistent revenue on the expense of Petronas.