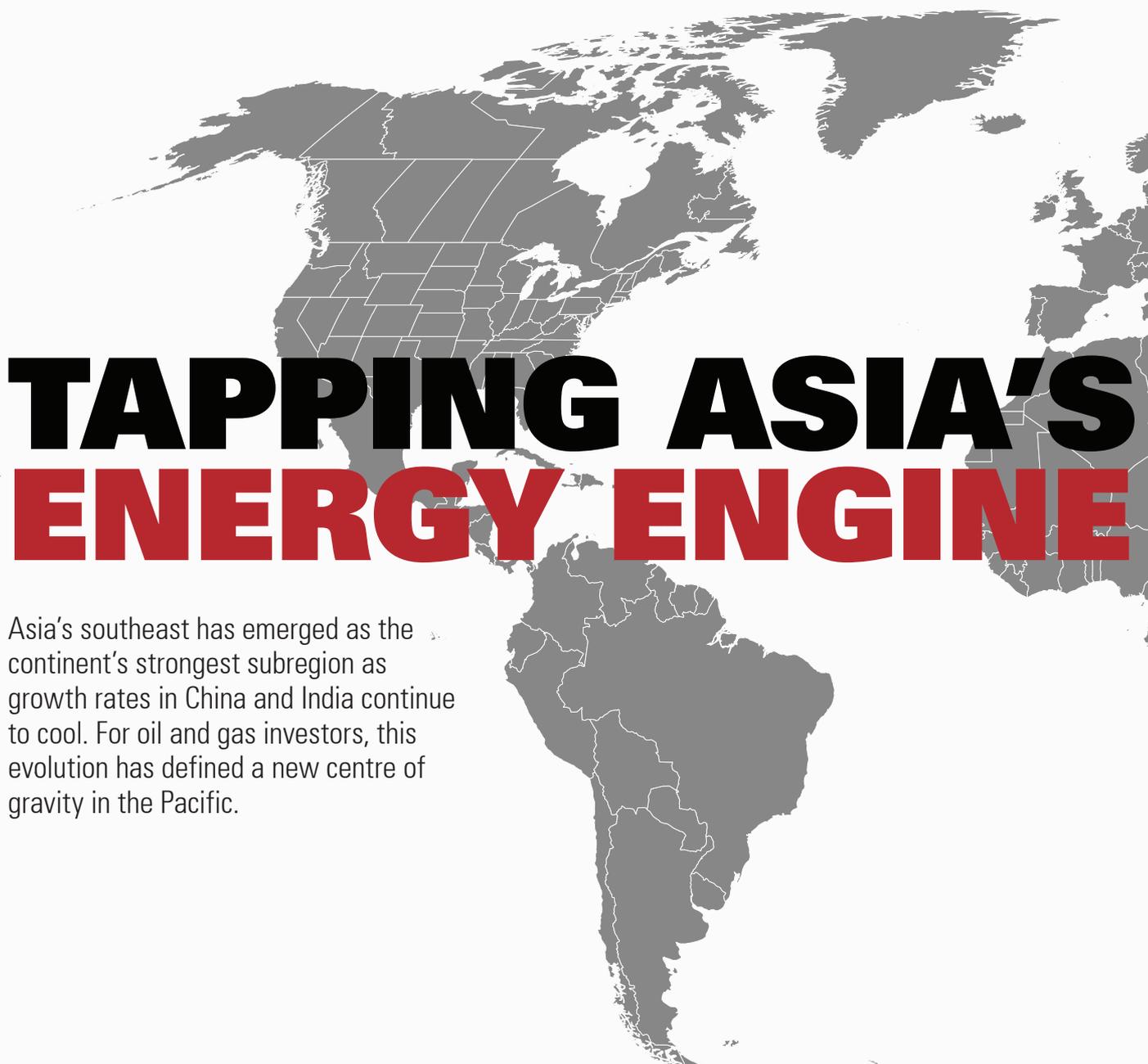


SOUTHEAST ASIA



TAPPING ASIA'S ENERGY ENGINE

Asia's southeast has emerged as the continent's strongest subregion as growth rates in China and India continue to cool. For oil and gas investors, this evolution has defined a new centre of gravity in the Pacific.

SOUTHEAST ASIA HAS remained relatively resilient to weaker energy export markets thanks to strong domestic consumption levels. Government support for the energy sector, meanwhile, has been characterised by encouraging infrastructure investment and economic policy reforms.

But despite these incentives – and the fact that trained energy sector labour is available locally at a reasonable cost – there has been

something of a vacuum in foreign oil and gas investment in southeast Asia over the past few years.

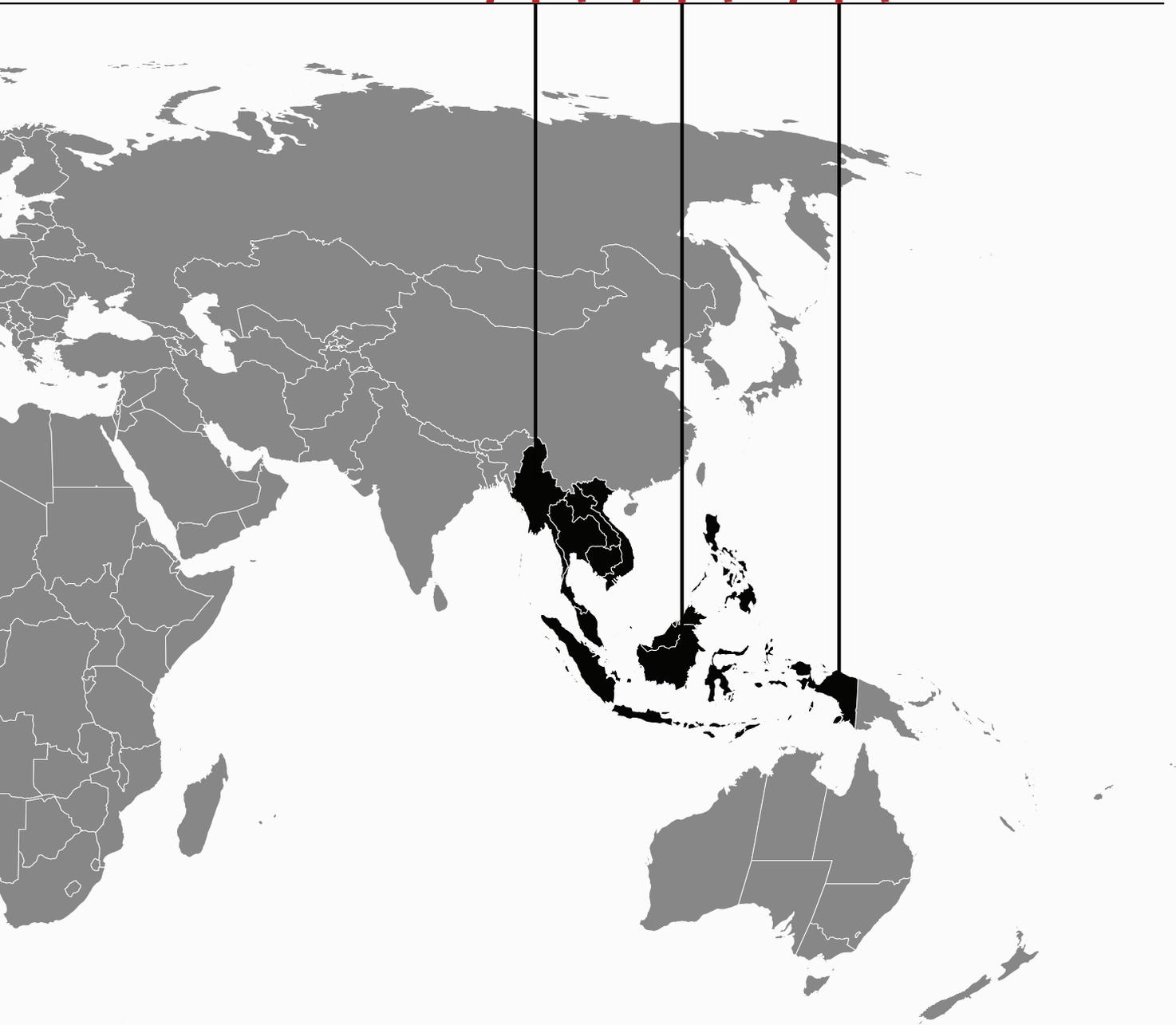
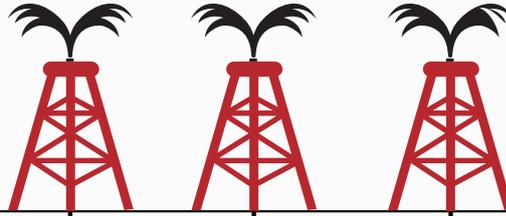
Many US companies have withdrawn from the region to spend their money on onshore shale back home. With the inherently long lead times in the oil and gas space, this situation has suggested an imminent gap in the conveyor belt between exploration and development in an energy-thirsty part of the world.

It also reveals a distinct window of opportunity for Australian juniors wishing to leverage their geographic

proximity and exploration expertise in order to attract the interest of large Asian companies chasing production assets.

Recent examples of Asian groups taking over Australian explorers in southeast Asia include Chinese conglomerate Fosun International's \$US474 million swoop last year on Roc Oil, a company which operates the Balai oil and gas fields offshore Malaysia.

This deal coincided roughly with Thai oil refiner Bangchak Petroleum taking over Perth-based Nido Petroleum, which holds properties in



Indonesia and the Philippines. The Thai-controlled Nido has since agreed to purchase the Galoc oil field in the Philippines from fellow Perth explorer Otto Energy.

Galoc has been producing crude since 2008 at a clip of 7000 barrels a day about 60km offshore at a depth of about 300m.

“Asian investors only want proven reserves and production,” Otto chief executive Matthew Allen told *RESOURCESTOCKS*.

“There are a number of companies that have assets that are undervalued

on the Aussie stock exchange, and Asian companies are able to buy the company cheaper than buying the asset. That was a trend in 2014 that will probably continue into 2015.”

ISLANDS OF CONTRAST

The Galoc deal represents Otto’s transition from an explorer-producer to a pure exploration play. The strategy is in keeping with the company’s geoscience strengths, and serves as a reminder that a lot of southeast Asian hydrocarbons may remain as yet undiscovered – even in

relatively unfashionable jurisdictions like the Philippines.

Foreign investment only started flowing into the Philippines about 15 years ago, resulting in a dearth of intense exploration with modern techniques and an oil and gas drilling success rate at about half of the global average.

Poor exploration numbers have largely been due to the high level of tectonic activity in the area, which has incidentally positioned the Philippines as a world leader in geothermal energy. Otto, however, has faith that big discoveries await in the deeper ►



Otto operations in the Philippines.

offshore waters, and is planning to further benefit from the country's status as a riskier exploration play.

"As a junior company, fiscal terms are key," Allen said.

"The higher the exploration success rate, the tougher the fiscal terms are, so if you go to a place like Indonesia, the government take can be well over 80%, whereas in the Philippines, the government take under the service contract is 60%, and there are a number of incentives that improve the return for investment."

Allen describes an amenable English-speaking jurisdiction, with Americanised customs, above-board regulators and "zero corruption" in the oil and gas space. He also flagged the ease of using specialist resources outside of the country.

"We do all our geological and geophysical work here in Perth," he said.

"We just couldn't operate that way in countries like Indonesia, so it's very welcoming to foreign investment in enabling that."

Indonesia, by contrast, is a primary

driver in the southeast Asian oil and gas scene. It is the largest energy consumer in the region and has enormous scope for growth. With only about a quarter of Australia's land mass, the country boasts about nine times as much onshore oil equivalent resources.

Lion Energy chief executive Kim Morrison has experience in southeast Asian offshore hotspots including Malaysia and Brunei, but says that Indonesia's emphasis on onshore development renders it particularly attractive to junior explorers as the local economic boom unfolds.

"The main reason we're there is Indonesia is the fourth largest in the world by population," he said.

"Energy demand is growing by 4-5% a year, but at the same time, conventional oil and gas is in decline. So there is actually a large energy deficit that is opening up that the regulators are very well aware of, and they're actively trying to encourage more exploration for both conventional and unconventional resources."

Lion focuses on the prolific

onshore basin of northern Sumatra, where the US Geological Survey has estimated reserves of 25.6 trillion cubic feet of gas, 900 million barrels of natural gas liquid and 700Mm bbl oil. The company's plan is to use shorter-term conventional exploration to help fund unconventional developments which are expected to play an expanded role in the country's future energy equation.

Morrison says the Indonesian government has been proactive in its attempts to fill a looming energy gap with diversified fuel sources.

"They've looked at what has happened in the US, where unconvensionals have transformed the energy landscape in North America, and they see unconventional gas and oil as being an increasingly important part of the energy mix," he said.

"They're keen to foster that, but this supply-demand situation is not only Indonesia – it's occurring in Vietnam, Thailand and Malaysia as well, with the growing middle class and growing populations."

THE DEMAND FACTOR

Growing power demand in southeast Asia has at least partially insulated the region's oil and gas operators from the price woes plaguing global energy sectors.

Within the usual cycle of economic highs and lows, the macro story for this part of the world remains the same. There is growing energy demand and decreasing energy



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MATTHEW ALLEN
OTTO ENERGY



supply. Ernst & Young's Asia-Pacific oil and gas industry leader Sanjeev Gupta said this growth had triggered surges in both inbound and outbound investment.

"The International Energy Agency expects southeast Asia's crude oil demand to rise by over 50% in the next 20 years, resulting in a tripling of its oil import bill to some \$US240 billion by 2035," he said.

"The demand for natural gas is forecasted to increase due to the growth in demand from the industry and energy sector. Foreign investors continue to flock to the region as there is investment being planned in the downstream and petrochemical sector."

Examples of this trend include Indonesia and Vietnam announcing major investments in refineries connected to foreign partners as well as Malaysia developing the Refinery and Petrochemicals Integrated Development (RAPID) project in Johor, which involves partnerships with major international petrochemical manufacturers.

In hindsight, Indonesia's exit from the OPEC oil cartel in 2008 was a clear sign of southeast Asia's shift from energy supplier to net energy consumer. In the meantime, new LNG markets and the increasingly crucial capital raising role of Singapore have supported the idea of southeast Asia as the engine of growth for the superpowers further north.

"With Singapore, Malaysia and Indonesia emerging as the storage



"They've looked at what has happened in the US, and they see unconventional gas and oil as being an increasingly important part of the energy mix moving forward."

KIM MORRISON
LION ENERGY

hub for refined products, trade flows in and out of the region to major consuming countries like China and India is forecasted to increase significantly," Gupta said.

"Singapore – already an oil hub for Asia – is making significant investment to emerge as an LNG hub, which will further underscore the importance of this region in the oil and gas sector."

On the mainland, Vietnam and Thailand are catching up, while a new hotspot seems to be surfacing in Myanmar, where Australians including Roc, Transcontinental Group and Woodside Energy are tipped to bring some new resource to the market.

The most important risk factor in these ambitions is not necessarily the recent weakness in energy commodity prices, but the political stability of the host countries. Elections in the region's young democracies have tended to usher in erratic policy changes, such as Indonesia's disruptive export ban on unprocessed minerals. King Bhumibol Adulyadej of Thailand, meanwhile, is 87 years

old and has had health problems.

The assumption is that Prince Maha Vajiralongkorn will take over when he dies, but his son is widely considered a weak and ineffective leader.

In the background, border disputes between Malaysia, Vietnam, the Philippines, China, Taiwan and Japan have swirled in the South China Sea, some of them still unresolved. In the Gulf of Thailand, Malaysia, Thailand, Cambodia and Vietnam are entangled in similar standoffs.

Effectively, this means that there is little chance of a coherent energy policy from the Association of Southeast Asian Nations anytime soon, but it also means there is plenty of compelling national interest to bolster energy independence.

Despite its internal frictions, the region will continue to act as a strategic block for Western investors aiming to access domestic, Australian and northern Asian markets. For any company making a sizable discovery, it will both lure major producers and redraw a multifaceted politico-economic balance.

Above: Lion drilling in Indonesia.

Source: Ivan Byriel, Lion Energy