Arguably there have been no giant oil finds in Southeast Asia since Indonesia’s Cepu in 2001. Since then many of the major international oil companies (IOCs) have divested or downscaled in the region, often turning to more promising acreage in Africa and the Americas. This has left the region’s national oil companies (NOCs) with a dominant role, but it has also left more room for independent exploration and production companies.

Often it’s not the geology that has seen the IOCs lose interest, but politics and bureaucracy.

A recent example of the latter is Cambodia, where US major Chevron had been sitting on a potentially big oil field, Apsara, since 2002 and submitted a production permit application in 2010. But as Cambodia’s finance and energy ministries bickered over the fiscal terms and exact conditions of a production sharing contract – which will be Cambodia’s first, as the country has yet to produce any oil or gas – the US major reportedly lost patience and was happy to sell out its 30% operator share in Block A to its junior partner Kris Energy for $65 million in August.

Kris Energy, a fast-growing Singapore-listed company run mainly by veteran American and British oilmen, is confident that, with more time to focus on the block than the US major could afford, it can succeed where Chevron failed, and that the Cambodian government will put fiscal terms in place soon allowing for the production sharing contract to be signed, a final investment decision next year and first production in 2017.

Kris Energy is predicting peak production of 10,000 b/d from the first Block A platform – about average for fields of similar geology in the Gulf of Thailand. The company is aiming to follow Chevron’s development plan fairly closely and could eventually have up to 10 platforms operating on the field.

One of Kris Energy’s competitors looks set to be UK-listed, Africa-focused Ophir Energy, which in late November had a GBP314 million ($492 million) bid accepted for London-listed Salamander Energy (slogan: Pure Asian
Enegy). Ophir’s bid came after Spain-based, UAE-owned Cepsa dropped its interest in Salamander, which put itself up for sale in May after being approached by several interested buyers.

Salamander’s main asset is its 40% working interest in Thailand’s B8/38 concession, which contains the Bualuang oil field, plus the G4/50 concession, which it had agreed to sell to Malaysian oil investment vehicle SONA for $280 million back in May. That deal would be canceled by the Ophir takeover.

The takeover deal for Salamander would expand Ophir’s footprint in Asia. The company made a name for itself as a minority partner to BG in some of Tanzania’s biggest offshore gas discoveries but has seen its own market value slump more than 60% over the last two years, reflecting a poor run of exploration results. Ophir currently has no producing assets, and the Salamander deal would give it some 12,000 b/d of oil equivalent from the Bualuang field offshore Thailand and stakes in a gas development in Indonesia after it acquired interests of between 18.5% and 100% in seven production sharing contracts there from Calgary-based Niko Resources in October. Ophir, which also recently acquired acreage in Myanmar, will operate six of the PSCs. Norway’s Statoil has stakes in five of the blocks and Italy’s Eni a share in one.

Ophir’s chief executive, Nick Cooper, who was a co-founder of Salamander, said the Niko deal represented “a significant reloading of the company’s exploration portfolio” which, together with Ophir’s recent PSC in Myanmar, would position Ophir as a “leading deepwater Asian explorer.”

This year has also seen a couple of startups enter the Southeast Asian exploration fray.

AziPac Limited, which received funding from Bermuda-based energy investment firm Seacrest Capital, was set up in May 2014, with offices in Singapore and Dubai. One month later it announced its entry into the Bone block offshore South Sulawesi in Indonesia, buying 40% of the acreage owned by operator Mitra Energy. The latest estimate for Bone’s gross unrisked prospective resource potential is 2.07 billion barrels of oil equivalent.
Then in August the new firm farmed into a block offshore Vietnam, again with Mitra, taking a 25% share in the Block 127 PSC.

Malaysia-based Mitra keeps a low profile compared to some of its competitors, but since setting up shop in 2005 it has built up a portfolio of 14 assets in the Philippines, Vietnam, Indonesia and Thailand. The company has made four commercial discoveries to date but has yet to produce any oil or gas and has seen senior management changes in recent years.

In late July US private equity group Blackstone said it was pumping $800 million into another new regional startup, to be called Tamarind Energy.

The new company will be headquartered in the Malaysian capital Kuala Lumpur and will target existing producing fields where additional development or the application of enhanced oil recovery techniques could boost output, as well as discoveries at the pre-development stage or in need of further appraisal, Tamarind’s CEO Ian Angell said.

Angell – formerly head of development at Talisman Energy and who worked before that at oil and gas consultancy Wood Mackenzie and oil services firm Schlumberger – said Tamarind was already “actively engaged” in conversations with NOCs regarding acquisitions and/or joint investments.

From Calgary to Beijing

Angell’s previous company, Talisman Energy, which focuses on Asia-Pacific and the Americas, is leading one of the most ambitious enhanced oil recovery projects in Southeast Asia.

The listed Canadian company aims to double production at the Kinabalu cluster of fields offshore Sabah in East Malaysia from just under 10,000 b/d of oil equivalent now to 20,000 boe/d by 2016.

Talisman was awarded a $1 billion production sharing contract for EOR at the mature fields – comprising Kinabalu Main, Kinabalu East and Kinabalu Far East – in 2012, when it also took over operatorship and a 60% share from Shell.

The Calgary-based company also has exploration acreage in Vietnam and gas producing assets in Indonesia, where it has a 3.06% share in the BP-operated Tangguh LNG project.

One of the few truly local listed independents in Southeast Asia is Indonesia’s Medco Energi. Starting as a drilling company in 1980, the company has been listed on Indonesia’s main stock exchange since 1994 and had a market capitalization of $974 million at the end of September 2014. Although it operates nine blocks in Indonesia, it also has interests in Oman, Libya, Yemen, Papua New Guinea, the US and – since August – Tunisia. The company expects to produce 60,000 boe/d this year.

Perhaps the most surprising new kid on the block is China’s Fosun International. A privately-held holding whose interests range from insurance to pharmaceuticals, the Hong Kong-listed firm in November secured ownership of Australia-based independent ROC Oil via an all-cash $440 million bid. Most of ROC’s oil-producing assets are offshore China, which makes the attraction for Fosun obvious, but ROC also has extensive...
Since then state PTT has signaled it wants to sell its 27.2% stake in Bangchak. Thailand’s Ministry of Finance separately holds a 9.98% stake and the remainder is publicly owned.

Similarly, a recent deal that saw a little-known company in Singapore called Risco Energy buy a 33% stake and operatorship of the Galoc field from Australia’s Otto Petroleum for around $100 million was initially something of a mystery. The deal, due for approval by Otto shareholders at their AGM in December 2014, should see Risco, which currently operates no upstream assets, take control of the field.

Otto said it would use the cash to bolster its growing position in East Africa.

Risco said it was buying the 33% operator stake in Galoc because it sees considerable further value generation potential in the field and that its strategy is to build a...
balanced portfolio of oil and gas producing, development and appraisal assets with modest brownfield exploration exposure in ASEAN leveraged off Galoc as a core asset.

Risco is “actively looking to grow in the Philippines particularly where there are strategic, operating and capability synergies,” it said.

The Singaporean company, which also owns 55.16% of Indonesia-focused, Sydney-listed Lion Energy, is also negotiating to buy a 25% stake in the Lemang production sharing contract in Indonesia’s gas-rich South Sumatra basin.

Eventually it emerged that Risco is owned by Kuwait Foreign Petroleum Exploration Co, which separately also has a stake in Galoc.

For all small firms, but especially those that are listed, the fall in oil prices since September has not been kind. However, Southeast Asia is not among the most expensive places in the world to drill and produce. For example, Kris Energy’s breakeven is $30-$35/barrel, and like many independents in Asia, it is somewhat shielded by having profitable long term gas contracts in place, says Richard Lorentz, the company’s director of business development.

However, many of the region’s energy administrations and ministries are notoriously slow, corrupt, or in Indonesia’s case, both.

At time of writing there were high hopes that Indonesia’s new President Joko Widodo will create a new, effective, upstream regulator and move quickly to approve a raft of delayed and stalled oil and gas projects.

In Cambodia, as already mentioned, Kris Energy is hoping to succeed where Chevron failed in agreeing fiscal terms and signing the country’s first ever PSC, while Thailand’s oil and gas regulatory regime was recently deemed by consultancy Wood Mackenzie to be onerous enough, given the average size of oil and gas finds there.

“If Thailand is to attract the necessary investment to sustain production, the priority should not be to create more barriers for investors,” Craig McMahon, Wood Mackenzie’s Head of APAC Research, said in late October.

Thailand’s 21st licensing round, originally scheduled for 2012, is now scheduled for early 2015, in part because of widespread community opposition to offshore drilling and public demand for a larger state share of oil and gas revenues.

Thailand’s relatively new military government is likely to stick with the country’s existing concession model rather than offering PSCs, but new fiscal terms are still being discussed.

“Although Thailand takes less than the Southeast Asian average of 74% government take, its average discovery size is the smallest in the region at only 7 million boe compared to an ASEAN average discovery size of 58 million boe from 2004-2013. If it is to remain attractive to investors, we do not believe Thailand is in a position to increase its share of oil and gas profits,” McMahon said.

The flipside, according to WoodMac, is that Thailand’s oil and gas regime is one of the most efficient in the region, where it takes on average just four years from discovery to bringing a field into
production, compared with eight years in Malaysia and nine years in Indonesia.

And while oil companies, of all sizes, like to complain about government takes, there is some acknowledgement that there have been a few smart fiscal changes by some governments in Southeast Asia. For example, Malaysia’s risk service contract regime for marginal fields suits independents looking to develop existing discoveries that can rapidly generate cash flow, while Myanmar’s new government is aiming for international best practice and full transparency in its new production sharing contracts.

**NOCs: competitors, and partners**

But the independents do not have it all their own way in Southeast Asia – many of the regional NOCs are ambitious, have deep pockets and have been expanding beyond their own markets in recent years. Some have bought assets miles from home, some have done deals mainly within the region and others have done a bit of both.

Indonesia’s state-owned Pertamina in October picked up 30% of US independent Murphy’s Malaysia assets for $2 billion, adding to a growing portfolio of overseas acreage that stretches from Vietnam to North Africa and Iraq.

Similarly, Malaysia’s Petronas, which has producing assets in Canada and Sudan, in September signed upstream cooperation MOUs with Mexico’s state-owned Pemex and Argentina’s state controlled YPF.

PTTEP, the upstream arm of Thailand’s state-controlled PTT, has extensive exploration acreage offshore Myanmar, Cambodia and Vietnam, as well as acreage in Oman, Algeria and Iran, and produces 25,000 b/d of oil from the Montara field offshore Australia.

State-owned PetroVietnam has interests in 14 countries including Russia, and in October signed a cooperation deal with Italian major Eni to work together on acreage in Myanmar.

Moreover, throughout the region, state-backed companies, or at least local partners, are usually entitled by law to back into foreign-operated blocks once they start producing oil or gas.

“There is an obligation in all of our contracts … to invite a local partner to come in and participate, once production is confirmed or established ... It’s always worked out. In fact, within the industry I don’t know of any bad experiences with local participation,” said Kris Energy’s Lorentz, who clarified he was not referring to big contracts nearing expiration, and thus possible contract extensions, which has caused problems for some foreign partners in Indonesia.

“The problem only comes up when you are successful enough to have a truly giant field that you can’t physically deplete in 30 years, and from my perspective that’s a kind of good problem to have,” added the Kris Energy executive.

And where exploration opportunities are tempting enough, the majors still show interest, despite considerable risks.

Thus, despite some continued political uncertainty following the restoration of limited democracy in 2011, most of the big IOCs bid in Myanmar’s 2013 offshore bid round, where Shell, Total, BG, ConocoPhillips and Eni all picked up exploration blocks. They were all deepwater blocks, where, under Myanmar’s new offshore regime, no local partner was required.