SE Briefing

HD **Capex Priorities Compel Majors to Take Knife to Asia-Pac Downstream**

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Royal Dutch Shell's ongoing downstream sales process in Australia has been making headlines this month, but reality is, the effort is simply the latest in a string of curtailed investments by the majors in Asia-Pacific's downstream sector. Such curtailments have extended beyond the developed markets of Australia and Japan, with the group demonstrating a similar lack of enthusiasm for the region's developing markets -- in the process confirming their lack of interest in refining worldwide.

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Having announced last April plans to either sell its 120,000 barrel per day Geelong refinery in Australia or convert it to a terminal if no buyer surfaced, Shell is now considering throwing in the towel completely, with the supermajor said to be in talks to sell its 900-strong network of petrol stations in the country as well. Shell would not comment on the reports, but at a time when investors are clamoring for greater spending discipline, the decision would hardly come as a surprise -- particularly given the 2011 shutdown of its 79,000 b/d Clyde refinery.

Australian refineries are old and in need of costly upgrading. Their small size also prevents them from competing with the megaplants popping up in Singapore and South Korea that often integrate refining and petrochemicals complexes to build in an offtake for many refined products. Yet analysts argue there is some value still to be had Down Under. "Australia is one of the few developed countries which still has [products] volume growth. Commercial sales are rising with diesel sales to the mining industry and jet fuel sales to the airlines," Credit Suisse's Sydney-based director of oil and gas equity research, Mark Samter, tells EI Finance. Caltex Australia -- which is 50% owned by Chevron -- would not disagree. Its marketing segment is expected to achieve a record earnings before interest and taxes (Ebit) of some A$765 million (US$692 million) for 2013, against forecasts of a A$175 million Ebit loss from its refining and supply segment. Caltex has long decried the low profitability of Australia's refining business and will convert its 135,000 b/d Kurnell refinery into an import terminal later this year (EIF Aug.23'11).

Others seem to agree, too, with the Australian Financial Review reporting last week that three groups are bidding on Shell's Australian retail assets, for a rumored price tag of A$3 billion. Private equity firm TPG has teamed up with the Ontario Teachers' Pension Plan and sovereign wealth fund Kuwait Investment Authority. Trading house Vitol and the Abu Dhabi Investment Council are another bidder, while Macquarie Group and Thai state refiner PTT combined for a third bid. "There is a lot of value for a private equity company in buying and breaking up the assets," Samter argues. The bids could not be confirmed, but Vitol's possible involvement would follow Trafigura's entry last year into the space when its 80%-owned fuel supply subsidiary Puma Energy acquired Ausfuel and Neumann Petroleum's petrol station portfolio -- making it Australia's largest independent fuel retailer.

Fellow majors BP and Chevron declined to comment on rumors that they, too, want to quit Australia's downstream. But a BP spokesperson stressed investments of A$150 million the company has planned for its Australian retail operations this year, while a Caltex spokesperson said the firm is committed to keeping its remaining 109,000 b/d Brisbane refinery, in which it is investing A$47 million.

The focus around Australia comes as the majors continue restructuring efforts in Japan -- in this case, because of slowed demand. Exxon Mobil sold a 9.99% stake in Japan's TonenGeneral to rival Mitsui for 33.6 billion yen ($325 million) last month, leaving the US supermajor with just a 12.21% stake in the business. It had previously reduced its 50.02% controlling stake to 22% in early 2012 in a $3.9 billion deal. Shell, the only other major present in Japan, maintains a 35% stake in Showa Shell, but the major may be maintaining that position simply "to keep relations warm with Saudi Aramco, which owns 15% of Showa Shell," a Japan-based analyst told EIF.

Exxon is meanwhile rumored to be following up its 2011 exit from Malaysia's refining sector with the **sale** of its 66% **stake** in Esso Thailand, which operates the 177,000 **b**/d Sriracha refinery. "I would look for private or strategic investors to be most probable," suggests John Vautrain, an independent refining consultant at Vautrain and Co. "A private **company** could buy these things at low prices planning on the next market swing to provide their returns without worrying about quarterly earnings reports in the interim. A strategic investor might look at Exxon as a place that could be upgraded with investment."

The reluctance to maintain existing refining and marketing positions in the region is expectedly hitting the majors' appetite for making new investments as well. Given its significant demand growth trajectory, **China** was once seen as a critical market to enter, and Exxon and Total in fact have stakes in refineries there. But price regulations has slowed those efforts. The government last year liberalized refined products prices further, yet **Chinese** national **oil** companies have been busy building refineries -- so much so that some analysts now predict persistent overcapacity. This has dulled the market's attractiveness for the majors, and made the **Chinese** government -- already reluctant to welcome in foreign investors -- even less keen to open the door.

Further limiting interest is the rapid growth of refining capacity in the Mideast, which could send additional products East of Suez. That broader market overhang is proving a bridge too far for the capex-pinched majors whose every investment these days is under intense scrutiny. The group has consequently been absent in Vietnam's refining sector, even as it, too, boasts a growing domestic market. Even Malaysia's Petronas, a respected upstream and downstream player, has failed to attract a major to its $20 **billion** Refinery and Petrochemicals Integrated Development (Rapid), expected to reach a final investment decision this quarter. That has left Petronas to shoulder the project and finalize deals with several petrochemicals players for specialist plants (EIF Sep.18'13).

Yet the majors' tepid interest in Rapid does not represent a broader pessimism toward the petchem promise the Asia-Pacific has to offer. Instead, this sector of the downstream is the seemingly one area the majors are willing to put capital dollars, although investments typically focus on upgrading and expanding existing complexes rather than funding greenfield developments. "Global chemical demand will grow at a faster pace than GDP. [...] Two-thirds of that growth in chemical demand will be here in the Asia-Pacific region," Exxon Chief Executive Rex Tillerson noted as his **firm** completed the doubling of its Singapore petchem complex -- and in doing so made it the world's first unit that can use crude **oil** as a feedstock. Chevron is meanwhile set to complete this year the expansion of its Oronite plant in Singapore. Already Asia-Pacific's largest such plant, the facility produces additives for engines and chemicals.

IN i652 : Gasoline Stations | i13 : Crude Oil/Natural Gas | i1 : Energy | i64 : Retail/Wholesale | i654 : Specialty Stores | iretail : Retail

RE austr : Australia | jap : Japan | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | easiaz : Eastern Asia

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