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Cepsa Bets on Abu Dhabi for Long Term

Spain's Cepsa has begun mobilizing its resources in Abu Dhabi after recently securing a stake in one of the emirate's offshore oil concessions and is eyeing more opportunities in the country, its top executive said (IOD Feb.20'18).

The company, which is fully owned by Abu Dhabi sovereign investor Mubadala Investment Co., in February agreed to pay a chunky $1.5 billion fee for a 20% stake in the 40-year concession covering the underdeveloped Satah al-Ras Boot (Sarb) and Umm Lulu fields. The entry marked a first for the company into Abu Dhabi's upstream and represented a major break with the past for the emirate, whose oil sector has been traditionally the exclusive domain of state Abu Dhabi National Oil Co. (Adnoc).

Cepsa CEO Pedro Miro Roig told International Oil Daily in an interview at The Middle East Petroleum and Gas Conference in Abu Dhabi this week that work was under way now on developing a deeper understanding of the fields' operations and securing work permits.

Sarb and Umm Lulu make up the smallest of three licenses offered under Abu Dhabi's restructured concessions arrangement and have a combined output target of 215,000 barrels per day, which is expected to be reached around the mid-2020s. Adnoc will retain 60% of the concession, with the remaining 20% stake due to be signed by the end of the month with OMV, according to the Austrian company (IOD Apr.6'18). The award to OMV wraps up Abu Dhabi's offshore license renewal process (IOD Mar.23'18).

International oil companies including Cepsa, Eni, Japan's Inpex and an all Indian consortium have been among the newcomers to win concession stakes in the offshore licenses, along with China National Petroleum Corp., which was already involved in Abu Dhabi's onshore since 2017, and long-term partner Total. Companies have been willing to pay large signing bonuses in a sign that, despite tough commercial terms, Abu Dhabi's offering is sufficiently attractive to generate significant international interest (IOD Feb.13'18).

The signing bonus, which in Abu Dhabi is the price of entry for its vast conventional low-cost reserves, can have a major impact on the commerciality of the investment, industry sources say. Abu Dhabi's tough tax and royalty scheme does not offer big profits, and a high bonus can drag down the internal rates of return that companies are watching very closely since the 2014 collapse in oil prices.

Cepsa's Roig said the concession offering was profitable and attractive for several reasons. "Big investments require many approvals internally. And the profit [from the concession] is good enough to make that approval," he said. "What's most attractive about the contract is its duration. We know what we get. It's a long-term concession and low production cost."

Buying into the offshore concession has also helped boost Cepsa's reserves-to-production ratio, which had been relatively low before, Roig said. In 2017, the company's reserves stood at 220 million barrels of oil equivalent, with production at 65,000 boe/d.

Roig, who has been Cepsa's CEO since 2013, said the company would be looking at more opportunities in Abu Dhabi, including its first-ever licensing round, which was launched earlier this month and will grant successful bidders the right to explore at their own cost, and then develop and produce any commercial discoveries over a 30 to 40-year period in partnership with Adnoc (IOD Apr.11'18).

As an integrated player, Cepsa is also interested in the stake Adnoc is offering in the large-scale Ruwais refinery complex and is pursuing joint plans with the state firm for a linear alkylbenzene plant at the location.

Like many other Mideast national oil companies including Saudi Aramco, Adnoc is investing heavily in expanding its refining and petrochemicals sector (IOD Apr.26'18). More than 40% of the 400 billion dirham ($110 billion) capital expenditure budget for the next five years has been allocated to the downstream as part of Abu Dhabi's strategy to add greater value to its hydrocarbons (IOD Nov.29'17).

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