

BRIEFING PAPER

BROADENING HORIZONS

Oilfield services companies flounder amidst Covid-19

JUNE 2020



TRANSFORMING BUSINESS

The slump in global demand for oil triggered by measures to control the spread of coronavirus (Covid-19) has highlighted the continuing exposure of the region to oil shocks. It provides a powerful reminder of the urgency of regional governments to reshape their national economies in readiness for a post-oil future. And of how every aspect of business will be affected by the transformation.

Key players in this transition are oilfield services (OFS) companies, whose ingenuity and technology is critical to providing solutions to overcome technical challenges on some of the most complex projects.

However, OFS companies are also some of the worst hit by the demand shock. Industry giants such Baker Hughes and Schlumberger have already written off billions of dollars in losses due to the combined impact of Covid-19 and reduced capital spending. The risks presented by volatile oil prices and fluctuating demand mean that firms cannot remain dependent on one industry to sustain their business.

The coming year will especially be critical for many companies scouring for upstream opportunities, as the world recovers from the Covid-19 pandemic.

GEARING UP

From the outset of 2020, the global oil and gas market has been riding a tsunami of uncertainty. In early January, geopolitical tensions in the Middle East saw oil prices spike upwards and then gradually slope down. And then, the outbreak of Covid-19 forced a global economic slowdown that has since sent oil prices tumbling.

The Opec+ alliance on 12 April formally finalised a historic agreement to

cut production by 9.7 million barrels a day (b/d) from 1 May.

With the output cut deal coming into effect, global benchmark Brent crude somewhat stabilised around the \$30 a barrel mark in early May.

OILFIELD SERVICES

OFS companies play a crucial role in the exploration and production process. Their success is directly impacted by crude prices, and so the current low

oil prices have hit these firms harder than ever. Worker layoffs and furloughs have become widespread and the project pipeline is uncertain.

The impact of coronavirus is profound. But it is temporary and once the world is through the crisis, focus will return to long-term structural issues.

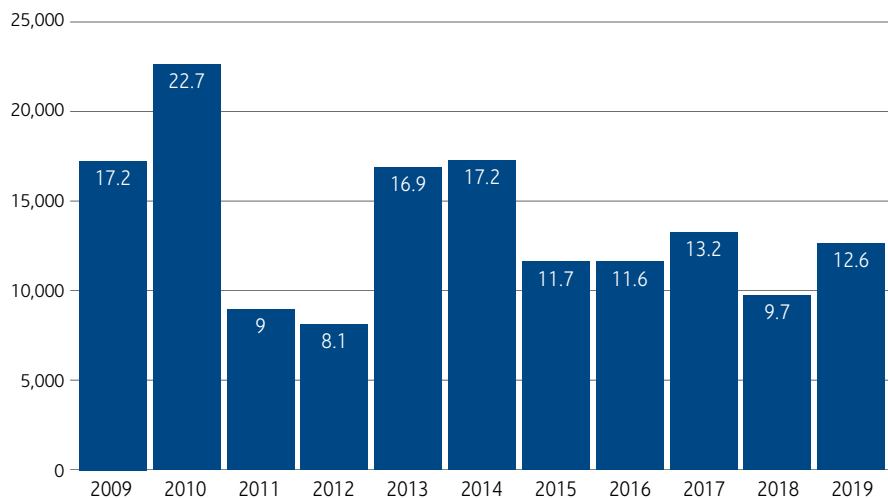
As oil companies become more cost-conscious, so as to sustain profits even during downturns, OFS companies will be driven to find more efficient and cost-effective solutions.

US-based firms such as Schlumberger, Halliburton and Baker Hughes have already turned to technology-driven business models, investing in research and development of solutions that boost hydrocarbons production.

With regional NOCs mobilising plans to develop unconventional oil and gas resources, OFS companies will have to turn to opportunities such as technological innovations, harnessing local skills and resources, as well as integrated offerings through alliances, joint ventures and acquisitions.

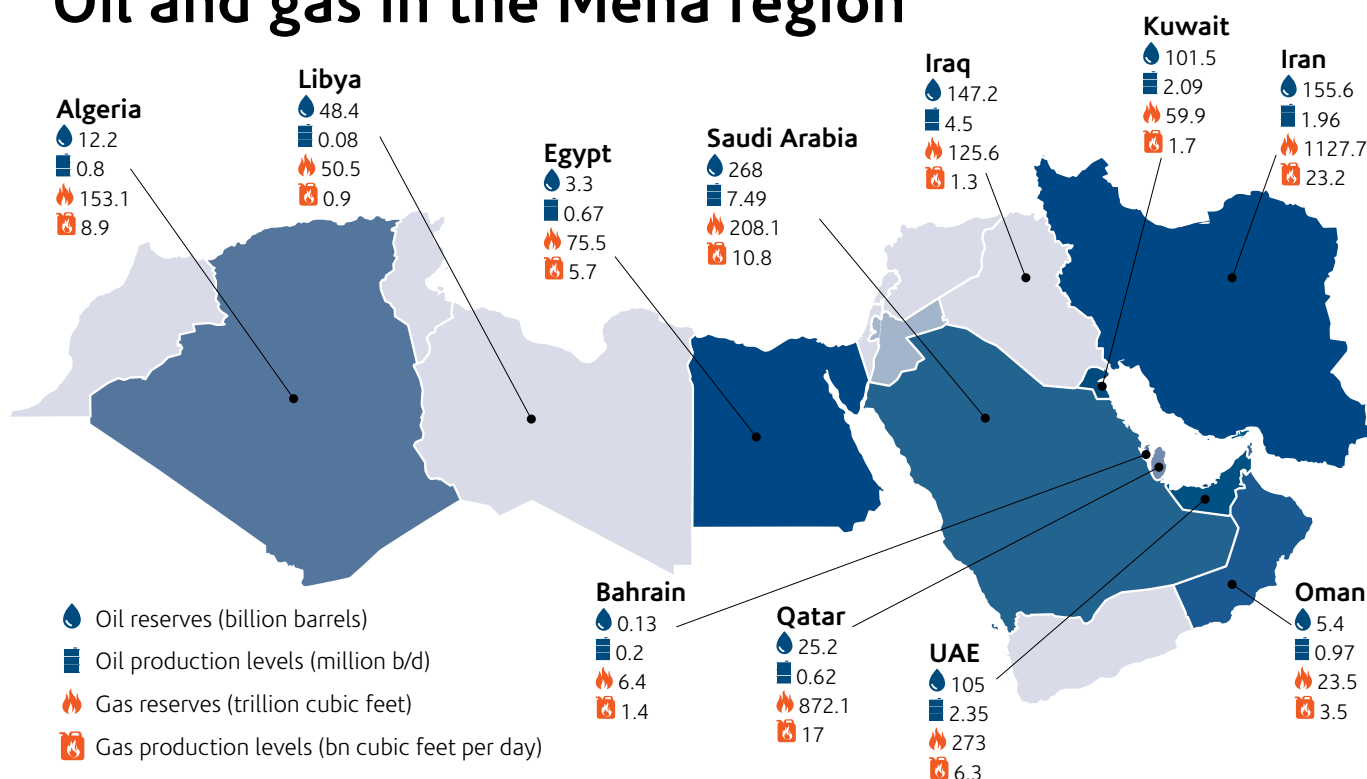
As the world approaches a post-oil, low carbon future, volatility is likely to increase in the energy markets and few people will be as affected as oilfield services firms. It is more critical than ever therefore for these players to rethink their business models.

Mena upstream oil and gas contracts, 2009-2019 (\$bn)



Source: MEED Projects

Oil and gas in the Mena region



Source: BP Statistical Review 2019, market reports

INDUSTRY OUTLOOK

The spread of Covid-19 will affect the feasibility of oil and gas projects planned and underway in the Mena region

ALGERIA

Political uncertainties have impacted energy investments in Algeria, hindering discoveries and developments. State-owned Sonatrach is hoping for renewed interest from IOCs following the passing of the hydrocarbons law in November 2019.

The country's biggest oil resource, the giant Hassi Messaoud field, is ageing. New production capacity is needed, but the lack of interest in recent upstream

exploration rounds has hindered efforts to tackle oil production declines. The lack of a substantial pipeline of upstream oil projects has led to concerns in some quarters as to whether Algeria can sustain its oil production over the longer term.

In early May, Algeria slashed its national budget by 50 per cent due to the significantly lower income from oil. The impact of this move could result in renewed turmoil across the nation.

BAHRAIN

Following the June 2019 edict allowing foreign companies to conduct and fully own drilling activities in the country, provided they have an exploration and production agreement with the state, Bahrain's upstream segment is on its way to being redefined.

In 2018, Bahrain's Noga announced the kingdom's largest-ever oil and gas discovery in the Khalij al-Bahrain basin.

The discovery, based on assessments from US-based consultant DeGolyer and MacNaughton, Halliburton and Schlumberger, could hold at least 80 billion barrels of tight oil in place, but only a fraction would be recoverable.

Bahrain's Nogaholding has signed an MoU with Baker Hughes on cooperation in the oil and gas sector in the kingdom.

Talks are underway with OFS firms such as Schlumberger and Halliburton for developing the tight gas reserves within the onshore Khuff reservoirs.

EGYPT

Political unrest in 2011 deterred investments in Egypt and led to a fall in production. However, stability is now returning, and with a number of key developments now progressing, production looks set to rise again.

Egypt has also signed an initial deal with Schlumberger to set up the country's first upstream gateway website,

providing data on all stages of drilling, exploration and production.

Most recently, Denmark's Maersk Drilling was awarded a \$3.8m one-well contract for its semi-submersible rig offshore Egypt.

IRAN



The re-imposition of US sanctions on Iran's energy industry from November 2018 has not just left the country devoid of foreign investment and technology transfer, but has also led to the departure of all Western oilfield services companies.

However, a bigger cause of worry for the Iranian projects market currently is the impact of Covid-19. As of 11 May, Iran had 107,603 cases of Covid-19 and recorded 6,640 deaths.

The biggest upstream project currently underway is the \$2.5bn phase one development of South Azadegan field, which includes drilling of nearly 200 production wells.

IRAQ



Upstream oil projects in Iraq have seen a significant decline in recent months, amid low oil prices, political chaos and Covid-19.

Prior to Covid-19, Halliburton was contracted for two years to provide drilling services for the second phase of the Majnoon Oil Field development, operated by Basra Oil Company (BOC).

In December 2018, BOC signed a deal with Schlumberger to drill 40 wells in Majnoon. Iraq Drilling Company was subsequently brought on board to drill 43 additional wells, while China's Hilong Oil Service & Engineering was signed on to drill 80 oil wells.

Separately, Halliburton was awarded two contracts for the Zubair oilfield in 2019, where it will mobilise four to six rigs to drill development wells.

In January 2020, China's Zhongman Petroleum and Natural Gas Group Corporation was awarded a \$27m drilling

contract in Southern Iraq by US-based energy services firm Weatherford.

Mostly recently, in May 2020, UAE-based Weir Oil & Gas signed a multi-year contract with an IOC in Iraq. Weir will provide its workshop services, machine shop services, emergency manufacturing and maintain the customer's well operations.

KUWAIT



In July 2019, Halliburton was awarded an \$597m offshore drilling contract by state-owned Kuwait Oil Company (KOC) for six high-pressure high-temperature (HPHT) exploration wells on two jack-up rigs in the Gulf. The offshore area could add an estimated 100,000 barrels per day (b/d) to current production levels.

KOC was expected to issue the invitation to bid on Jurassic Production Facility 4 (JPF4) and JPF5 in January, but the projects have since been put on hold according to MEED Projects. A list of prequalified bidders was announced in July 2019, which included players such as Schlumberger Oilfield Eastern, Saipem and Petrofac.

Meanwhile, Dubai-based oil and gas drilling and production company ADES was awarded two onshore drilling contracts in Kuwait by Baker Hughes in December 2019.

OMAN



In May 2019, Weir Oil & Gas signed a four-year wellhead services contract with Oman Oil Company Exploration & Production (OOCEP), which also included training for Petroleum Development Oman (PDO) technicians and supporting in-country value.

In recent years, PDO has also turned to energy efficient solutions in its oilfield operations, utilising renewables and low-carbon emission technologies. GlassPoint Solar commissioned Middle East's first solar enhanced oil recovery stem at the Amal West oilfield in 2013.

GlassPoint further signed an agreement with Occidental Petroleum of Oman in 2018 for a solar thermal plant to facilitate oil production at the Mukhznania oilfield.

QATAR



Qatar's hydrocarbons projects market has declined significantly from its peak on 2004-2006, but the lifting of the self-imposed moratorium on the North Field should give some new impetus to the projects market. Currently, Qatar is the leading producer of natural gas in the Middle East and liquefied natural gas (LNG) worldwide.

2019 saw state-owned Qatar Petroleum (QP) launch its localisation programme called Tawteen, to enhance Qatar's energy sector supply chain. QP signed MoUs with Baker Hughes and Schlumberger to expand their operations in Qatar.

SAUDI ARABIA



In February, Saudi Arabia announced plans to launch the biggest shale gas development outside the US, with state-owned Saudi Aramco outlining plans to pump \$110bn over the next few years to develop the 200 trillion cubic feet (tcf) Jafurah gas field. Aramco has been working with shale drilling experts such as Schlumberger, Halliburton and Baker Hughes to develop the necessary fracking technology.

Aramco's In-kingdom Total Value Add (IKTVA) programme is also pushing OFS firms to align with the national vision of growing local talent and employment, and increasing foreign investment in technology.

Halliburton Landmark presented a multimillion-dollar educational software grant in early 2020 to King Abdulaziz University in Saudi Arabia to train and prepare the next generation of Saudi oil and gas engineers and geoscientists.

Meanwhile, Schlumberger opened phase one of a manufacturing centre in Saudi Arabia's King Salman Energy Park (Spark) in February, geared at developing a skilled manufacturing workforce for oil and gas products in the region.

Aramco has also signed a non-metallic joint venture (JV) with Baker Hughes to innovate, develop and manufacture composite materials for both oil and gas as well as non-oil and gas applications. The JV facility will be located in Spark.

Saipem recently signed an agreement with Dammam-based Abdel Hadi Abdullah al Qahtani & Sons Company (AHQ) to form a JV in Saudi Arabia, to pursue Aramco's onshore construction and pipeline EPC projects. Saipem will raise its local content generation capability in order to meet IKTV requirements.

Saudi Arabia is also improving its own oilfield service capabilities. In May 2019, Saudi-based Industrialisation and Energy Services Company (Taqa) announced plans to acquire two US-based OFS and equipment manufacturing firms.

Taqa has allocated about \$1.2bn for new investments and acquisitions over the next three years to expand its portfolio. In April 2019, Taqa's subsidiary ADC purchased US energy services major Schlumberger's onshore drilling rigs business in Kuwait, Oman, Iraq and Pakistan for \$415m.

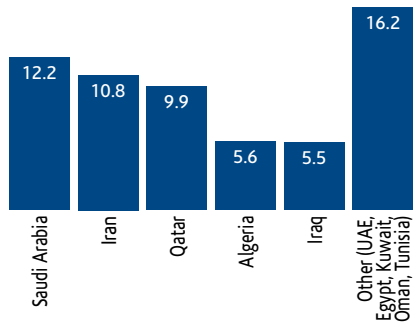
And in January, it signed an agreement with UAE-based AlMansoori Petroleum Services (AMPS) to improve hydraulic fracturing offerings in Saudi Arabia.

Saudi Aramco raised prices for June supply of crude compared to the low levels of April-May. Oil imports into China, a major buyer of Saudi crude, are rebounding.

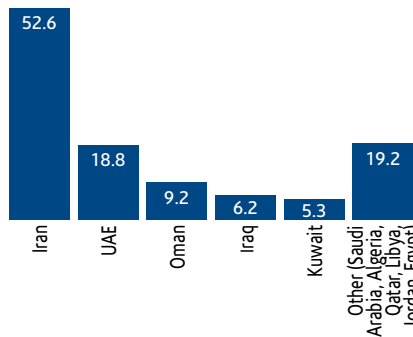
However, the kingdom also announced a hike in value added tax from 5 per cent to 15 per cent, to improve state finances. Further-

MENA OIL & GAS UPSTREAM PROJECTS

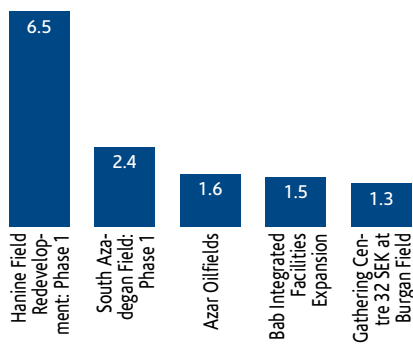
Value of projects under execution (\$bn)



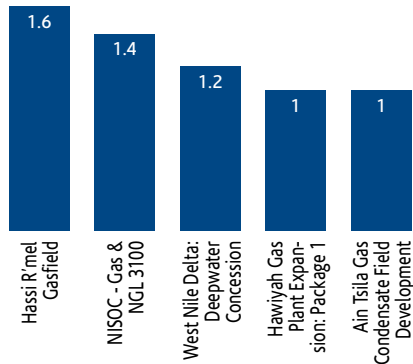
Value of projects at pre-execution (\$bn)



Top oil projects under execution (\$bn)



Top gas projects under execution (\$bn)



Source: MEED Projects

more, the government has said it will reduce allocations for some projects that are a part of Vision 2030.

UAE



UAE has witnessed an uptick in upstream activity after Sharjah announced its first onshore discovery in nearly 40 years.

Further drilling is underway to determine the exact size of the discovery, but the Mahani-1 exploration well tested flow rates of up to 50 million cubic feet per day (cf/d) of gas and condensates.

Just days after Sharjah's announcement, Abu Dhabi National Oil Company (Adnoc) also entered joint operation with Dubai Supply Authority (Dusup), after the discovery of a new shallow gas reservoir near Jebel Ali containing an estimated 80tcf of shallow gas.

While details about the reservoir are still sparse, more than 10 exploration and appraisal wells have been drilled so far.

Adnoc's In-country value (ICV) programme launched in January 2018 encourages private-sector partnerships and local development. Subsequently, OFS providers working in the UAE have strived to align themselves to this requirement, part of Adnoc's 2030 growth strategy.

In August 2019, Adnoc awarded \$3.6bn-worth of contracts for the procurement of oil field casing and tubing equipment to UAE-based firms that partnered up with foreign OFS firms.

These included Consolidated Suppliers Establishment, representing Luxembourg's Tenaris, Abu Dhabi Oilfield Services Company, representing France's Vallourec, and Habshan Trading Company, representing Japan's Marubeni Corporation.

In November 2019, Schlumberger signed an agreement to support the ICV programme, slating to employ up to 1,000 Emiratis.

About MEED

MEED has been integral to delivering business information, news, intelligence and analysis on the Middle East economies and activities for over 60 years.

Attracting a key senior management audience through its content and activities, MEED is a media brand, publication and data business that covers a spectrum of services which inform, engage, connect and ultimately support our subscribers and partners in their business development and strategic growth.

Acquired by GlobalData Plc in December 2017, MEED is now part of one of the largest data and insights solution providers in the world with the capacity to build global communities for our clients.

Our purpose is to support the region's companies make better and more timely decisions through our innovative data solutions and grow through our comprehensive and world-class marketing solutions. To find out more email: info@meed.com

About Mashreq

Established in 1967, Mashreq is the oldest bank in the UAE, with award-winning financial solutions and services.

Throughout its 50 years' history, Mashreq has differentiated itself through innovative financial solutions, making it possible for its customers to achieve their aspirations.

Today, Mashreq has a significant presence in 11 countries outside the UAE, with 21 overseas branches and offices across Europe, the US, Asia and Africa.

Mashreq launched its new Vision and Mission recently, outlining its commitment towards its clients, colleagues and

the community. In line with its vision to be the region's most progressive bank, Mashreq leverages its leadership position in the banking industry to enable innovative possibilities and solutions for its customers across corporate, retail, international, treasury and Islamic banking.

Mashreq is proud to be the first financial institution in the UAE to be awarded the Gallup Great Workplace Award for four consecutive years from 2014-17.

Mashreq also continues to invest in recruiting, training and developing future generations of UAE national bankers.

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