Indian Oil plans to expand Nagapattinam refinery

PROJECTS & COMPANIES

INDIAN Oil has unveiled plans to build a 15 million tonne (300,000 bpd) refinery at Nagapattinam in Tamil Nadu.

The state-run energy major said last week that it would invest around 400 billion rupees (US$6 billion) to expand an existing 1 million tonne (20,000 bpd) plant to 9 million tonnes (180,000 bpd) in the first phase, before later expanding it to 15 million tonnes. The existing plant is operated by Indian Oil subsidiary Chennai Petroleum Corporation Ltd (CPCL), which is also 15.4% owned by National Iranian Oil Co (NIOC). CPCL wants to expand the refinery to make better use of its sizeable land bank in Nagapattinam.

Uncertainty over CPCL's future ownership structure could, however, delay the project. India's government has previously outlined plans to merge CPCL with parent Indian Oil, but no decision has yet been made over what to do regarding NIOC's holding.

Meanwhile, the viability of another Indian Oil refinery – this time a 15 million tonne plant in Odisha – is now in question after the local government decided to withdraw fiscal incentives for the facility.

The state government said it would lose 227.5 billion rupees (US$3.41 billion) of revenue at current value if it allowed the 340 billion rupee (US$5.1 billion) refinery to defer paying VAT on oil products sold in the state in its first 11 years of operation. The company estimates the revenue loss as being much lower at 80-90 billion rupees (US$1.2-1.35 billion). *(See: Odisha withdraws Paradip refinery's tax incentives, page 6)*

The Odisha government also argues that the plant is already much more profitable for Indian Oil than initially planned because it has been expanded from 9 million tonnes to 15 million tonnes. Low oil prices have also helped, it has said. The plant is now operating at 90% of its capacity.

Of India's 230 million tonne (4.6 million bpd) per year total refining capacity, state-owned majors dominate with 150 million tonnes (3 million bpd).❖

SOUTHEAST ASIA

Petronas seeks outside investment

The state-owned company is scrambling to find investors in both its upstream and downstream projects, writes Sam Imphet

COMMENTARY

WHAT:
Petronas is looking for a buyer for a stake in the promising SK316 Block off the coast of Sarawak State.

WHY:
The company needs funding to help it raise production from the block to feed an LNG terminal.

WHAT NEXT:
Upstream projects seem more secure but an ongoing ambition to build a regional downstream hub may hurt it in the long run.

MALAYSIA'S financially constrained Petronas seems set to fund its various investment commitments now that it is anticipated to garner US$1 billion through the partial sale of its most promising domestic shallow-water gas block.

The NC3 field in the SK316 Block off the coast of Sarawak State only began producing at the start of this year – to feed the expansion of an LNG terminal – but major investment is still needed to develop other fields in the block.

Neighbouring Thailand's state-owned PTT has already declared an interest in SK316 and Indonesia's state-owned Pertamina is also reportedly keen. Both countries have seen their production come off the boil in recent years, with Thailand peaking in 2014 and Indonesia in 2015, even as demand continues to grow.

State-owned Petronas' upstream operations have slowed in the last 12-18 months, owing to an energy price collapse that saw the NOC move last year to slash its planned capital expenditure until the end of 2019 by US$11.2 billion.

The firm's downstream prospects also looked gloomy until Saudi Aramco came to the rescue early last week, confirming it would invest US$7 billion in the Refinery and Petrochemical Integrated Development (RAPID) project. Plans there include a 300,000 bpd refinery.

Up for grabs

NC3 began supplying Sarawak's new LNG Train 9, a joint venture between Petronas and JX Nippon Oil & Energy, for the export market in January. Wood Mackenzie analyst Prasanth Kakaraparthi told *NewsBase* that the SK316 sale represented a win-win for potential buyers and Petronas alike.

"SK316 is an early life cash-flow generating asset, so it naturally forms a good fit for any company looking to enter or establish a key foothold in the region," he said. "Given that Petronas has ▸▸

100% of the project and the second phase of development involving Kasawari – a high CO_2 field – will be capital intensive, we think it makes sense for Petronas to farm down their interest."

Petronas might sell up to 49% of SK316, combining NC3, Kasawari and other exploration acreage, unofficial reports have suggested. Kasawari is one of the largest non-associated gas fields in Malaysia with an estimated 3 tcf (84.96 bcm) of reserves.

Buyer interest

Malaysian media reports have suggested that the Sarawak State government is interested in the stake, with Free Malaysia Today saying local authorities wanted the state to benefit more from its natural resources.

But so far, Thailand's PTT is the only regional major to express interest in SK316 openly. Upstream subsidiary PTT Exploration & Production's (PTTEP) heavy capex cuts over the last 18 months contributed to a 2016 net profit of US$372 million, allowing the firm to signpost US$4 billion of new investment depending upon oil price performance.

A new source of gas supply close to home would certainly appeal to Thai energy strategists, given that the country's own reserves are declining and an expansion of national LNG import capacity is on the cards.

On February 27, PTT said it was considering building a new LNG terminal on the southeast coast in addition to existing facilities at Rayong near Bangkok. Gas fuels about 70% of Thailand's power generation and proposals to build big new coal-fired power plants in southern Thailand have faced strong public opposition.

Petronas, which is directly controlled by Malaysian Prime Minister Najib Razak, has not publicly commented on SK316, preferring instead to use select media to issue unofficial comments – which is how plans for the stake sale emerged. The company's last formal upstream announcement was on January 23, when it said LNG Train 9 had begun commercial operations on January 1.

But despite the lack of public comment, a partial stake sale makes sense, given Petronas' hefty financial obligations.

Great expectations

LNG is a major source of national revenue and outside investment in SK316 should help raise gas production for the Bintulu LNG plant, thereby maintaining the company's position as one of the world's five largest exporters of the fuel.

Greater production, coupled with a recovery in regional prices, should ensure Petronas is able to keep underwriting the spending programmes of an embattled president.

"Petronas has always been a company burdened with heavy expectations," the CEO of Singapore-based consultancy Consulus, Lawrence Chong, told *NewsBase*. "It is a major contributor to the government's coffers and unfortunately it is operating in an environment that shows no sign of sustained upswing."

He added: "With such demands in terms of government public spending, it is a pity that Petronas has to sell off a strategic and valuable gas field to monetise at a loss."

But beyond exports, the Kuala Lumpur government is fostering ambitions of turning the country into a regional LNG trading hub by 2020.

Integrated hub

Malaysia's trading hub ambitions form part of the ambitious Pengerang Integrated Petroleum Complex (PIPC) in the southern state of Johor, adjacent to oil trading hub Singapore.

PIPC is also home to Petronas' RAPID project, whose future appeared shaky at the end of January when unofficial reports emerged that potential partner Aramco had gone cold on the project. One of Malaysia's mainstream newspapers, The Star, said the Saudis had "ditched" RAPID.

But on a visit to Malaysia on February 27 at the start of a month-long Asia business tour to promote investment, Saudi King Salman bin Abdulaziz Al Saud agreed that Aramco would invest in RAPID, Najib said.

Chong said a Saudi withdrawal from RAPID would have been a blow to the Malaysian president's economic ambitions. But even with Aramco back on board, Petronas still faces challenging times ahead given the heavy demands placed on it by the state.

What next

It is *NewsBase*'s view that Petronas' future is more assured in the upstream than downstream. Even with Saudi backing, pushing forward with a full-scale PIPC development, including LNG hub and RAPID projects, seems ambitious, especially when considering its plans for the major Pacific NorthWest LNG project in Canada.

Plans for the 300,000 bpd RAPID refinery were drawn up when oil was trading at US$110 per barrel, but prices are now hovering around US$55 per barrel. While that spells stronger margins for operational installations, the outlook is not so rosy for plant that needs to be funded by a company built on upstream operations.

Petronas is not alone in having to rethink its downstream commitments. In 2016, PTT cancelled plans for a similarly sized refinery in Vietnam. RAPID may well struggle to start full scale operations by the 2019 target date set by Najib, especially given the regional ramp up in refining capacity.

While the project is more certain now, thanks to Saudi backing, the company's commitment to building a regional downstream and trading hub to rival Singapore at the expense of being able to fully fund strategic upstream assets may come back to haunt it.❖

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