

Thanks for joining:

# Preserving Value in Challenging Times

## Oil and Gas Webinar

Wednesday 29 April 2020



Presentation starts:  **12:00pm**



## **Abisola Atitebi**

Director Energy Utilities and Resources  
PwC Nigeria

 **The Moderator**



**Cyril Azobu**

Partner/Advisory Leader PwC Nigeria

•||• Welcome and Introduction



**Bola Adigun**

Director, Corporate Finance PwC Nigeria

•||•||•||• **Presentation of Cold Facts**



# Global Overview

# Containment measures to limit the spread of the outbreak drastically shrunk economic activity, and in turn, the demand for oil and oil products

## Direct impact of the demand shock from COVID-19

### Declining jet fuel demand and jet refining margins

- Consumption of global jet fuel is expected to decrease by **2M bpd** (Jan to Apr 2020), as COVID-19 quarantines limit air travel, evidenced by international flight cancellation rates at 70%

### Decreasing diesel and gasoline demand and cut runs

- Global diesel and gasoline consumption is anticipated to drop by **10M – 25Mbpd**, given further lockdown restrictions and reduced traffic
- Almost all refineries in Europe, Atlantic Basin and Asia have cut runs
- Negative diesel and gasoline cracks in EU and US

## Key concerns for the industry

1

Will demand return to pre-COVID-19 levels?

2

Will the industry continue to attract investment and sustain growth?

3

Will we see a structural change in the supply chain?

4

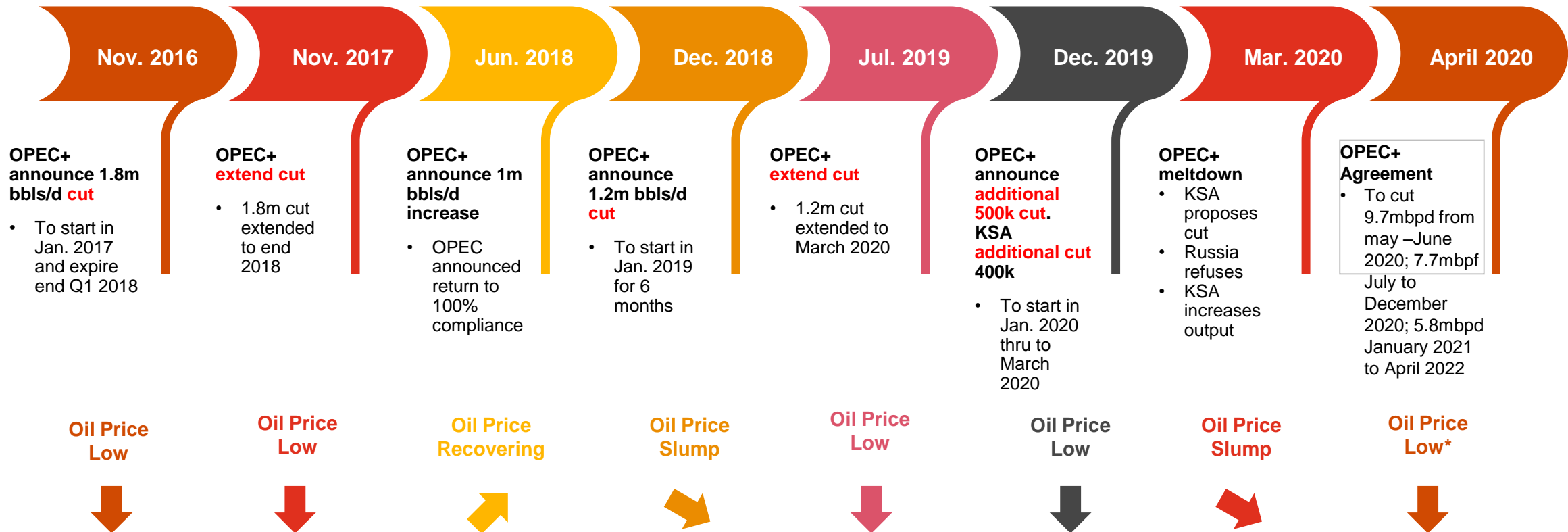
Will the energy transition come back to the forefront?

5

Will prices return to Pre-COVID 19 level?

# The OPEC+ group of countries further compounded issues by failing to agree on a cut in output, which precipitated a supply shock

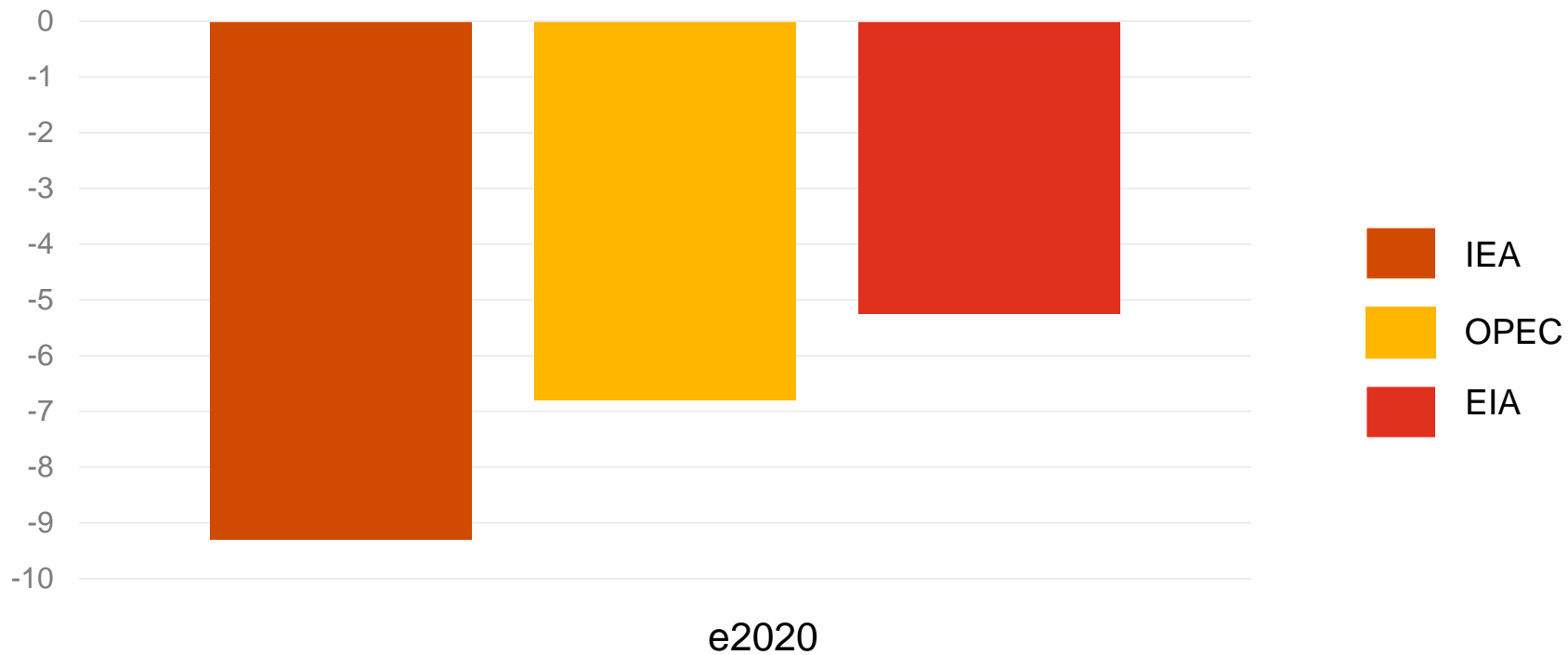
## Timeline of OPEC Announcements 2016 – 2020



\*Initial Brief recovery experienced

**As a result, oil demand is expected drop by as much as 9.3mbpd in 2020**

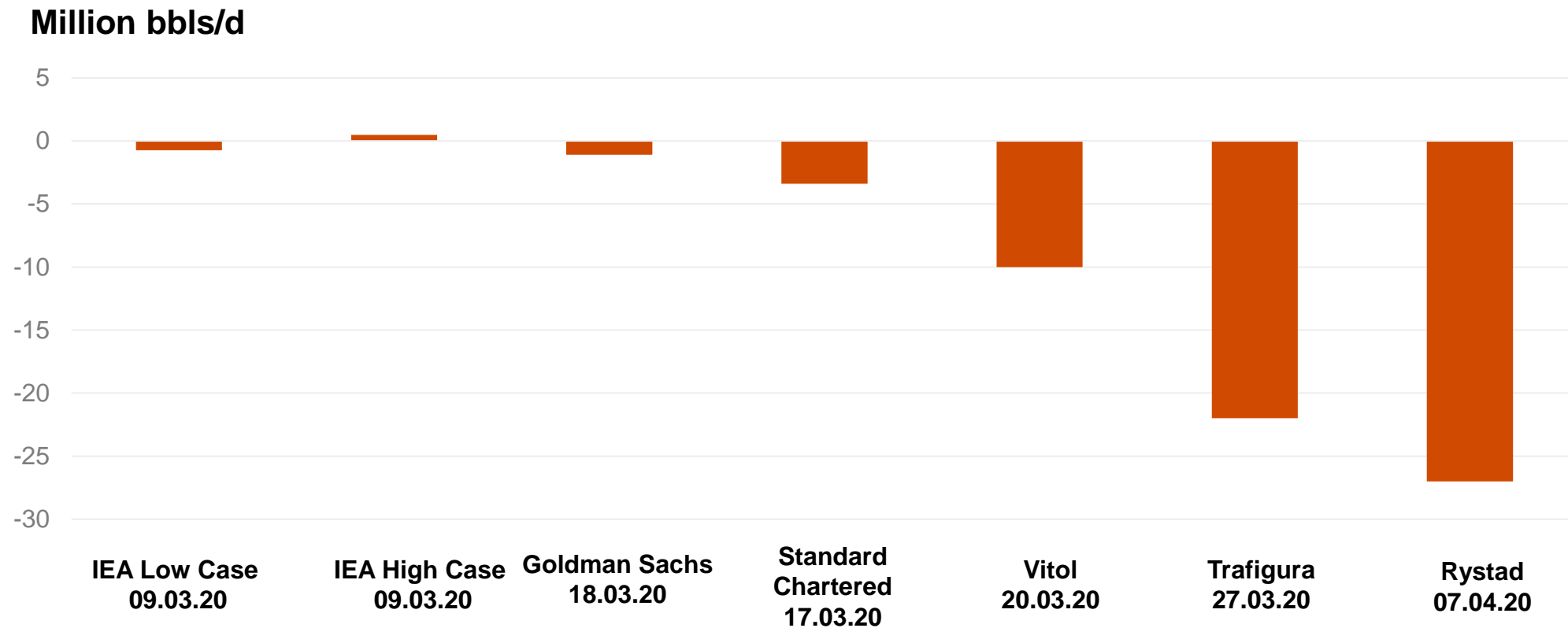
### Global Oil Demand Forecasts e2020



Million bbls/d

# Decline in demand during the 'lockdown months' is expected to be as high as 27mbpd...

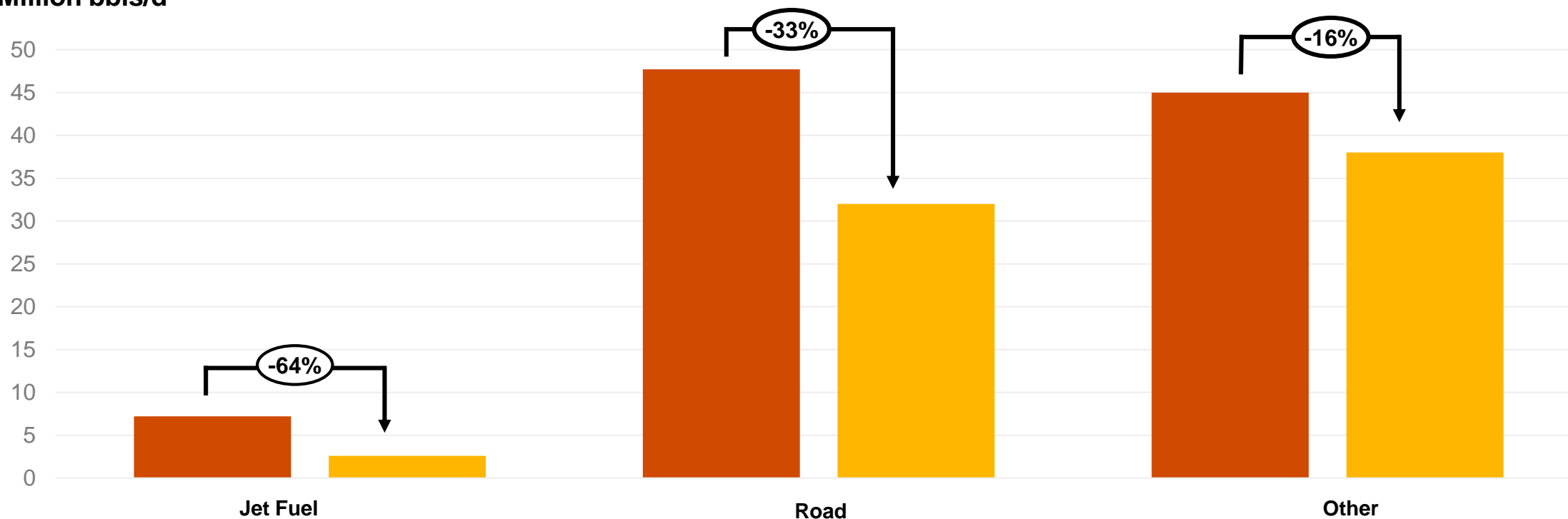
## Global Oil Demand Short Term Forecasts for April 2020



...with jet fuel particularly exposed among other refined products as the pandemic has brought mobility to a halt

## Global Refined Product Demand Short Term Forecasts for April 2020

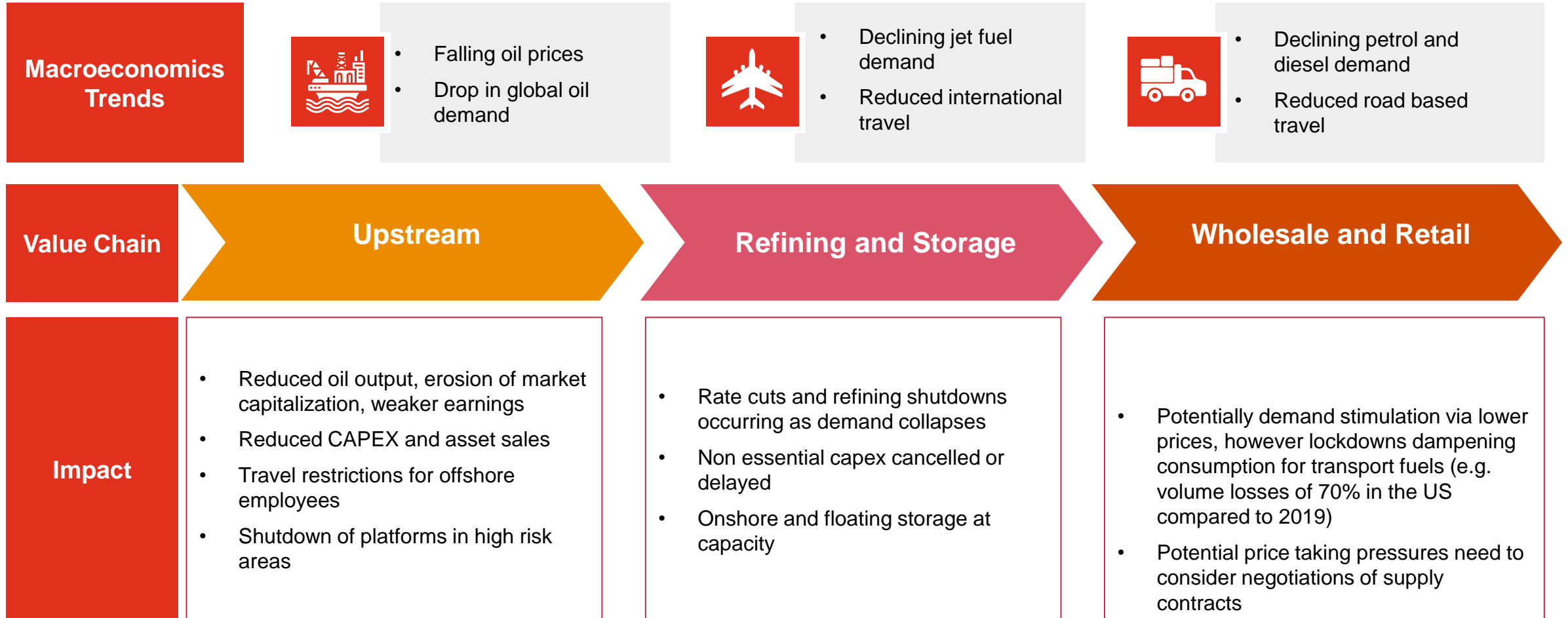
Million bbls/d



Source: Rystad Energy, PwC Analysis

2019 Monthly average  
Apr-20

# As a result, the impact of the twin shock will be significant across each segment of the oil and gas industry value chain

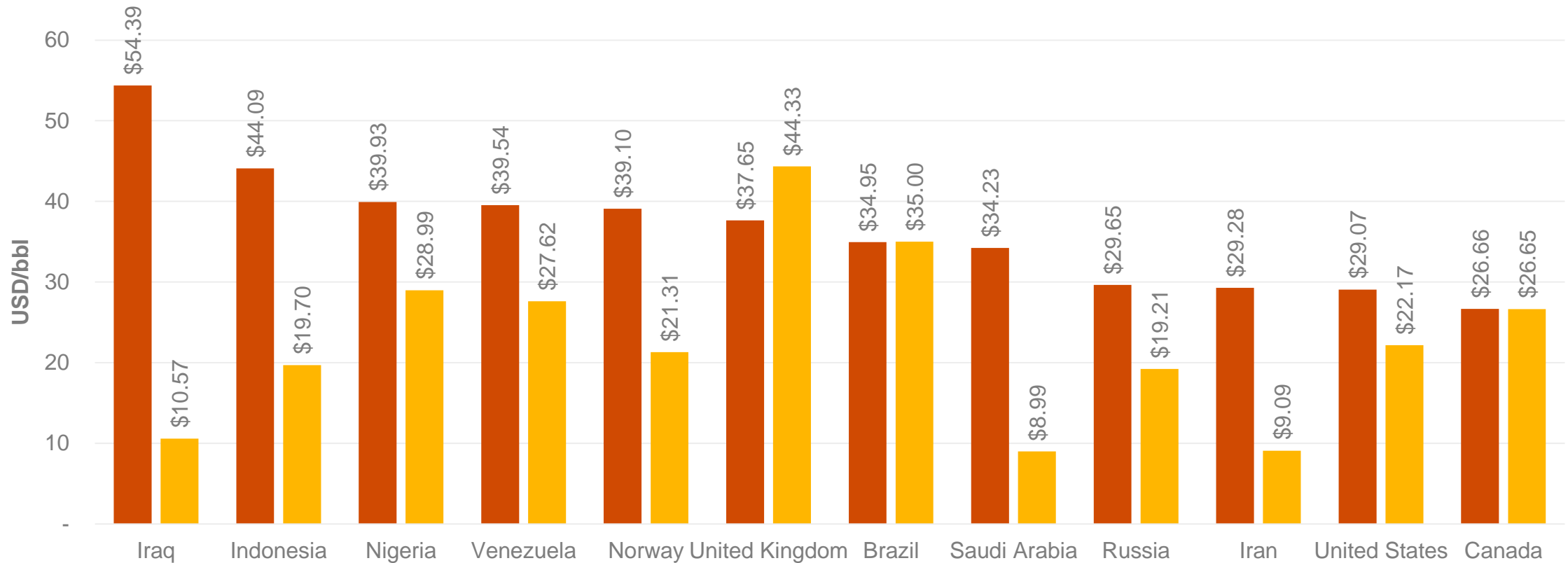




**Nigeria**

# Even before the twin shock Nigeria has had one of the highest total cost of production per barrel in the world...

## Average Total Cost of Production



Source: Rystad Energy, PwC analysis

KEY:

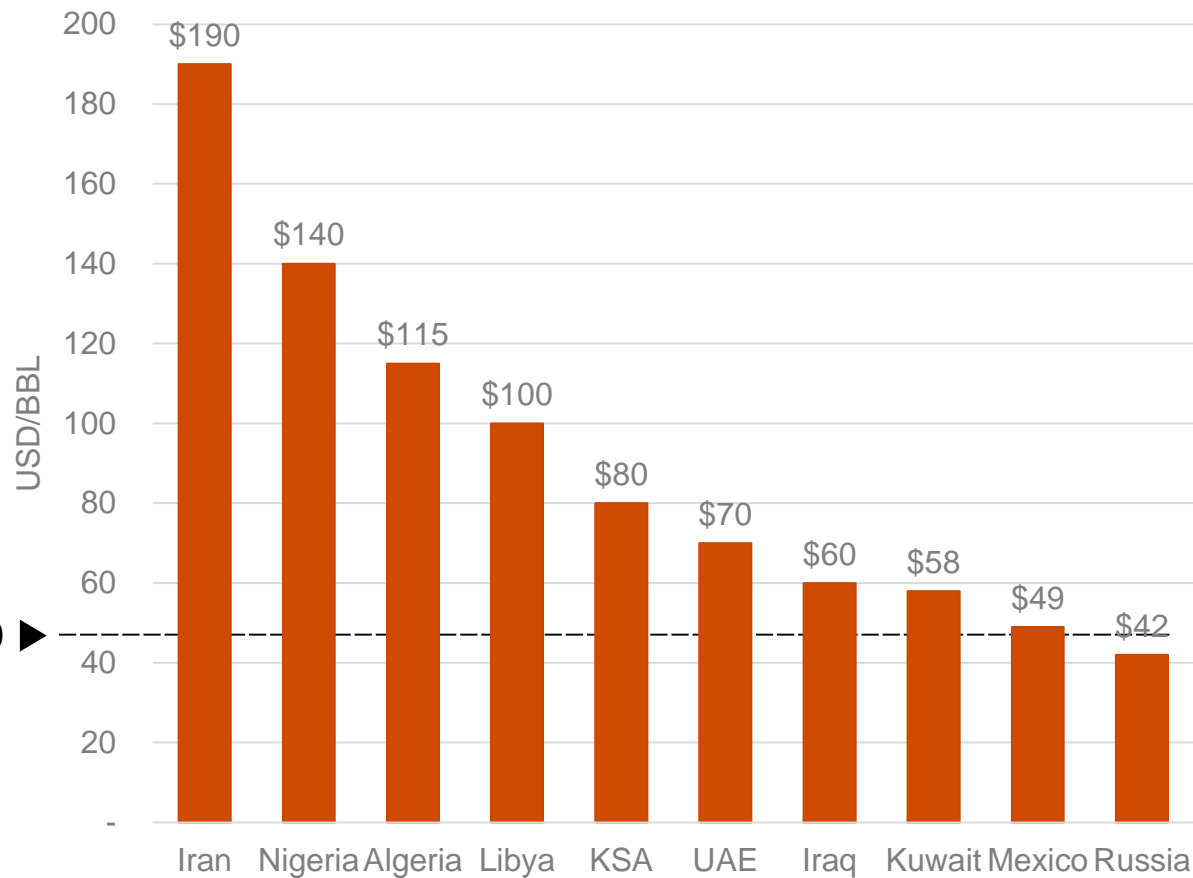


2019 average production costs

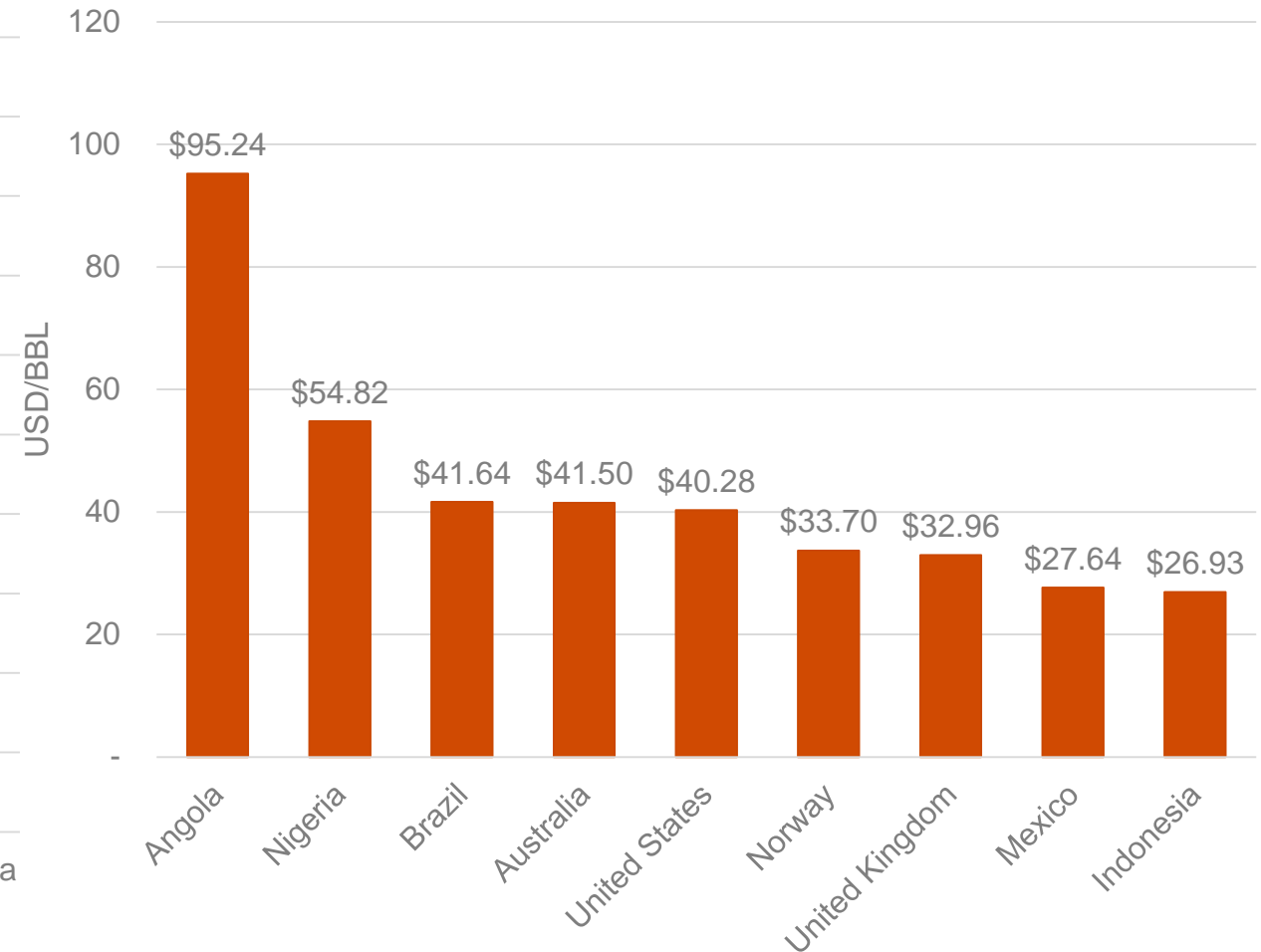
2016 average production costs

... and one of the highest break even prices...

### Fiscal Breakeven Price



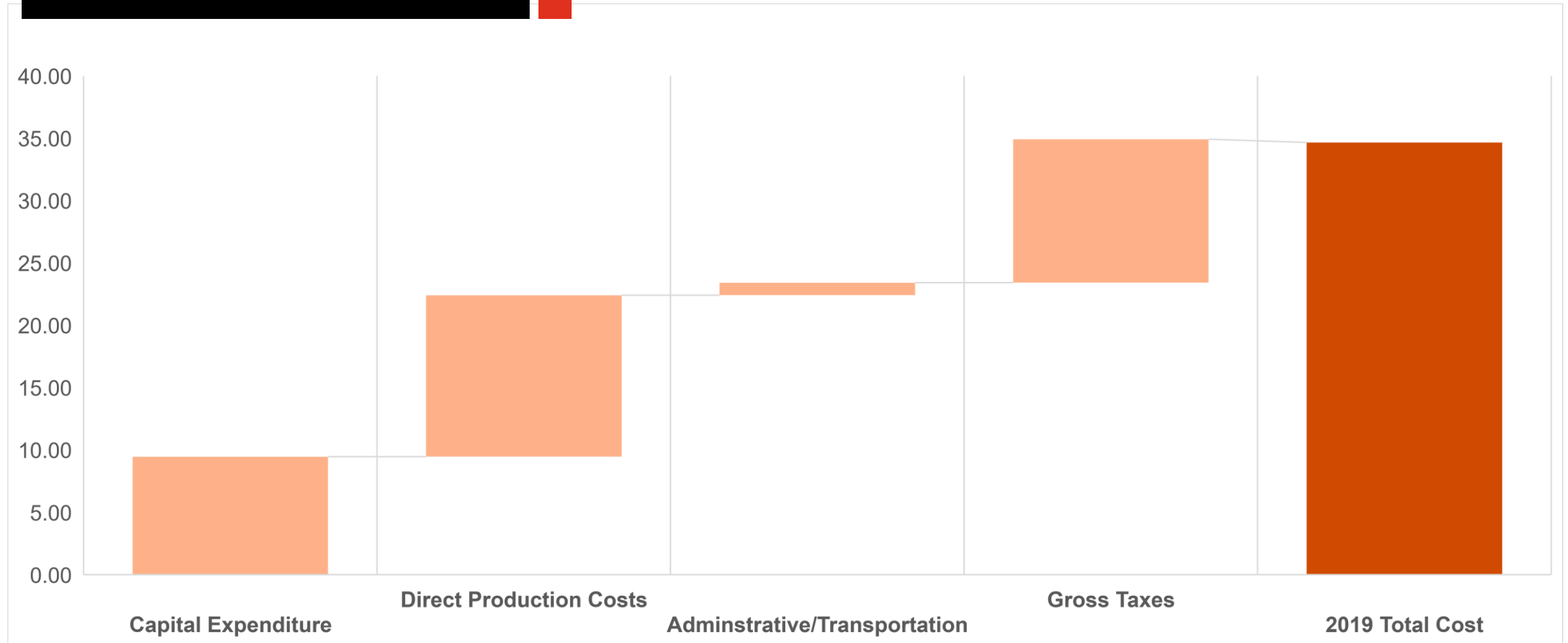
### Average Offshore Breakeven Price



Source: Rystad Energy, IMF, Reuters, PwC analysis

**...with direct production cost and gross taxes constituting the highest portion of the country's cost of production at 37% and 33% respectively**

### Nigeria: Total Cost Breakdown



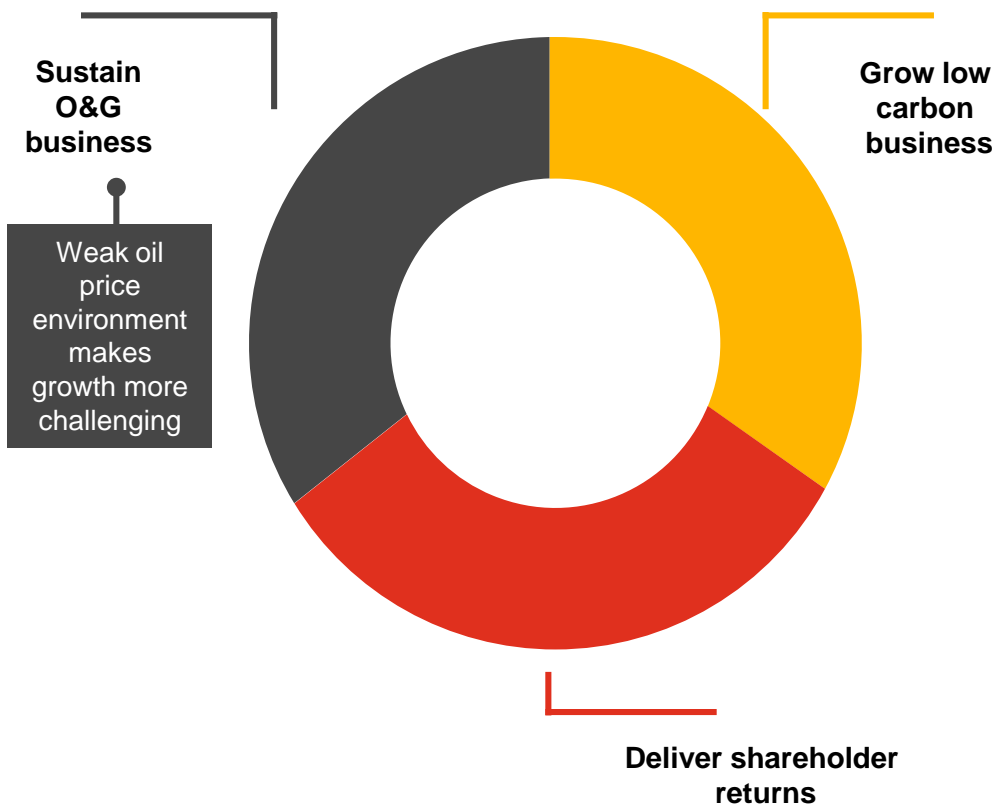
Source: Rystad Energy, PwC analysis



**Way Forward**

# Traditional measures in downturns...

## Energy Transition Trilemma



## Response to Downturn

- 1 Capex Cuts
- 2 Cost reduction
- 3 Headcount reduction
- 4 Dividend cut

# ....New thinking?



**Cash is king for survival- but there are trade-offs:**

Innovative cost reduction and hyper-focus on working capital management is crucial, but it may come at the cost of furloughed staff.



**Building more resilience in business models:**

Moving forward, business planning should factor in the possibility of black swan events like COVID-19.



**Innovation is crucial for longevity:**

It is necessary to double down on digital technologies and new ways of working to survive this era and thrive in the new normal.



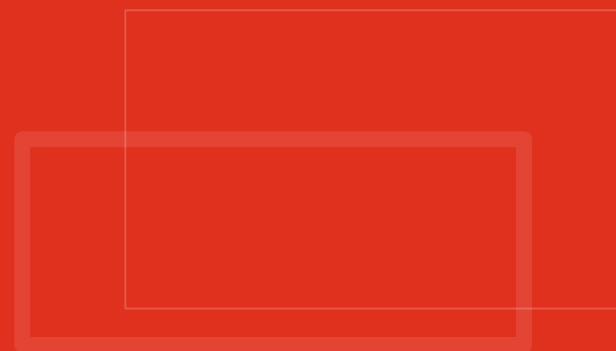
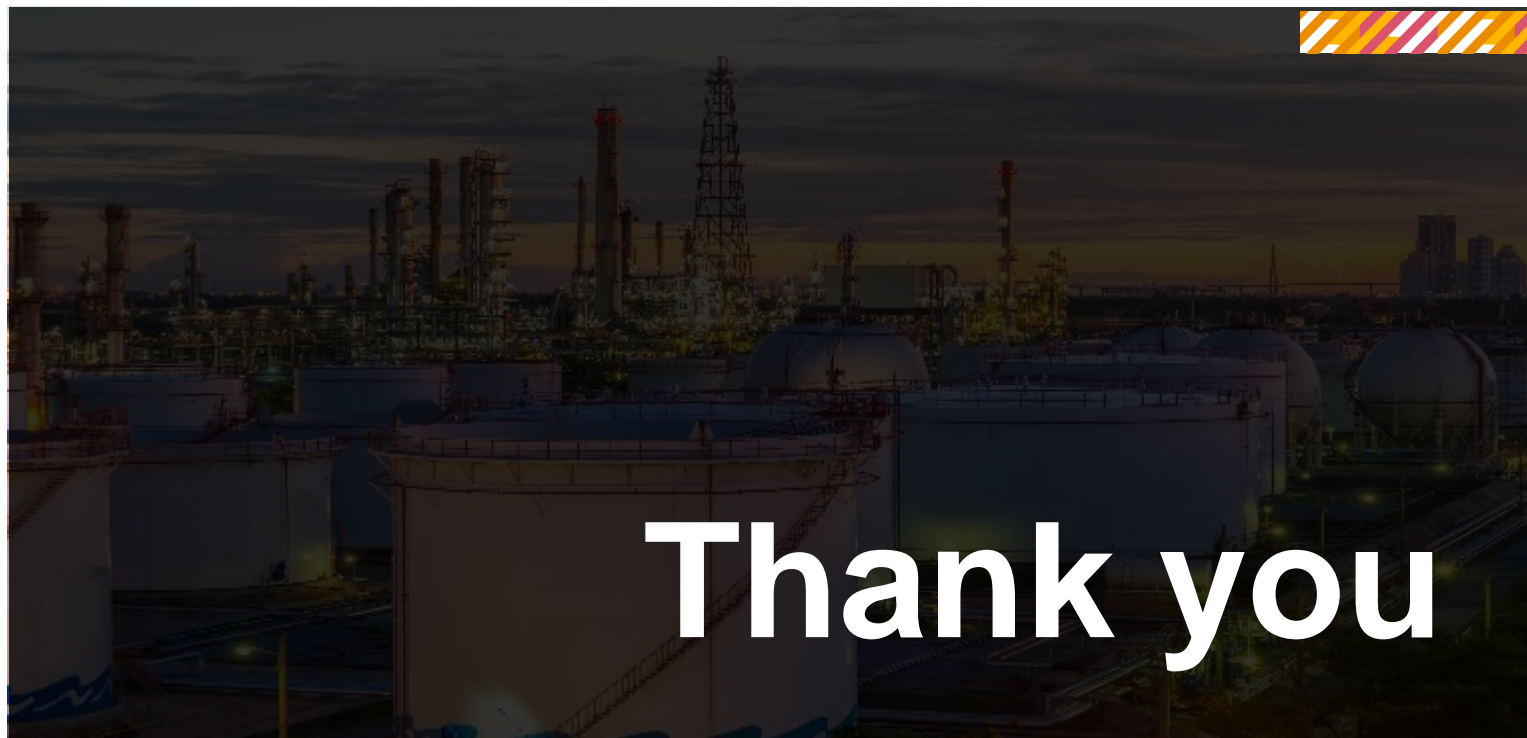
**Trading will be critical to support businesses:**

Traders can take advantage of the current price volatility to create short-term gains for their businesses



**The energy transition will regain priority soon:**

Redesigning businesses and supply chains to deal with COVID-19 will present opportunities to revisit the low carbon agenda





**Umar Ajiya**  
CFO Nigerian National  
Petroleum Corporation



**George Osahon**  
Chairman Energia



**Mahmud Tukur**  
CEO Eterna PLC



**Adrian Del Maestro**  
Director PwC UK

## Panel Discussion



**The Moderator**



## Q&A Session



**The Moderator**



## Oluwadamilola Dada

Director, Energy Utilities and Resources  
PwC Nigeria

•||•||•|| • Wrap up and close



# Thank you

This webinar has ended



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