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Argentina Oil and Gas Q4 Report 2012

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Abstracts

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BMI View:

The renationalisation of YPF and subsequent ‘aggressive but realistic’ strategic investment plan set out by the company is the new driving force behind Argentina’s energy sector. Vaca Muerta is the main E&P focus of YPF’s five-year plan. The main challenge that the company will face is attracting the capital (technological, financial and human) to commercialise these resources. It could go either way for YPF and the government, and at this early stage we have only made a minor intervention in our forecasts for hydrocarbons production, pencilling in a small rise. We expect nationalisation to prompt the company to increase production at existing fields over the remainder of 2012 and into 2013. Further changes to our forecasts, including reserves and refining capacity, will come when the implementation of the five-year plan begins in earnest.

The main trends and developments we highlight in the Argentine oil and gas sector are:

The fiscal regime needs work if Argentina is to secure adequate long-term investment and harness the country’s apparent potential.

An audit carried out by US consultant Ryder Scott to assess potential of the Vaca Muerta formation in Argentina's Neuquén Province has led to a substantial increase in estimated reserves. The formation is now considered to hold prospective resources of 21.2bn barrels of oil equivalent (boe), contingent resources of 1.5bn boe and booked proven, probable and possible (3P) reserves of 116mn boe net to YPF. This is a considerable increase on a November 2011 contingent resources estimate of 927mn boe. In one of Repsol’s last investor presentations as the parent of YPF it noted that

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Argentina has the potential to replicate the shale revolution witnessed in the US, while the CEO of US independent EOG Resources said that the Vaca Muerta play 'could be bigger than the 5.7bn bbl Eagle Ford', a formation located in south Texas, US.

YPF's new investment plan envisages US$7bn in capital expenditure (capex) each year to 2017, focusing on the unconventional plays at Vaca Muerta and marginal fields. The aim is to increase production to 219.2boe by 2017, a rise of 37% on current production levels. YPF aims to increase the number of new wells to 50 per year, in comparison to 19 wells per year between 2007 and 2011. Repsol-YPF had previously estimated that it would invest US$25bn per year to double the country's current oil and gas production.

Conventional oil volumes will continue to come under pressure, though the plan to increase production from marginal fields could provide some respite if implemented as envisaged by YPF. Our current estimates assume oil output falling in 2012, but recovering in 2013/14. By 2016, we expect Argentina to be pumping an average 744,540 barrels per day (b/d).

Artificially low domestic prices for fuels insulate demand. However, because of the weakening macroeconomic environment it will take a toll on oil consumption. We now forecast annual average growth in oil consumption of 2,0% to 2016, reaching 718,860 b/d. The trend of importing more and more refined fuels while exporting less and less crude oil will continue according to our forecasts, pushing the cost of imports higher. We forecast the cost of refined fuel imports to be US$2.96bn by 2012 and rising to US$5.54bn by 2021. By 2018 we see net oil imports of 13,360b/d and rising thereafter, ending Argentina's position as a net oil exporter.

Our forecasts suggest that natural gas production will reach 40bn cubic metres (bcm) by 2016, although we are not factoring in any production from shale gas at this stage. The commercialisation of the Vaca Muerta shale gas resources presents a strong upside risk to our forecast. Under the current forecast scenario, imports of natural gas are expected to reach nearly 14bcm by 2016, up from 5.2bcm in 2011.

The cost of oil and gas imports costs will continue to rise steadily over the forecast period, with the potential to nearly double by 2021 should there be no major progress in exploiting shale resources. Indeed, gas imports will cost a total of US$4.5bn in 2012, rising to US$10.2bn in 2021. The value of the country's oil exports will shift from US$118mn in 2012 to an import bill of US$9.6bn in 2021. At the time of writing we assume an OPEC basket oil price for 2012 of US$107.05/bbl, falling to US$99.10/bbl in

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2013. Global GDP in 2012 is forecast at 3.2%, up from an assumed 3.1% in 2011, reflecting slowing growth in China and uncertainty with regard to the eurozone debt situation. For 2013, global GDP growth is estimated at 3.7%.

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