AOW
AFRICA OIL WEEK
a Hyve event

IN PARTNERSHIP WITH
Wood Mackenzie

AFTER THE CRASH – WHAT'S CHANGED IN THE AFRICAN UPSTREAM?

Impacts on capital spending, production and value

Introduction

- **In 2020, oil and gas markets suffered a double crisis of supply and demand. Africa has been hit hard and widespread cuts and project deferrals have been implemented.**

- **We take stock by comparing our latest data with our Q1 2020 view. The comparison reveals some striking changes in investment, production and value as companies adjust to the new market conditions. These include:**

  – Upstream spend in 2020 is down US$14 billion

  – FIDs targeted in the next 18 months are down from 22 to 3

  – Upstream value in Africa is down one third (US$200 billion)

  – Deepwater and LNG investment are hit hardest

  – No resource theme is immune. But cuts are particularly severe in deepwater and LNG. Capital expenditure revisions on deepwater West Africa projects and deferrals on large LNG projects in Senegal, Mauritania and Mozambique both contribute.

  – The majors are responsible for most international investment in Africa's upstream sector and they are cutting heavily. Cuts are expected to be larger than elsewhere in their portfolios. But where does this leave valuations and how core is Africa to their portfolios now?

Executive Summary - What's Changed in the African Upstream?

Investment hit hard, resulting in deep production losses

INVESTMENT

- Upstream capital spend down $14 billion in 2020, reducing by 23% over the next five years
- High cost deepwater projects in West Africa and LNG projects in East Africa suffer the deepest cuts
- The majors lead on cost cutting, with capital spend down $6 billion in 2020
- Spending reductions in Africa expected to be greater than global portfolio averages
- Expected FIDs in 2020 have fallen from 10 to one

PRODUCTION

- African production will decline for the first time since 2016, down 1.3 million b/d in 2020 as demand falls and OPEC cuts take effect
- Delayed, deferred and cancelled investments will slow the rebound
- Weakened gas demand will cause short-term losses in North Africa, while East Africa faces mid-term losses as LNG projects are delayed
- NOCs led by OPEC+ members have the deepest production cuts

ECONOMICS

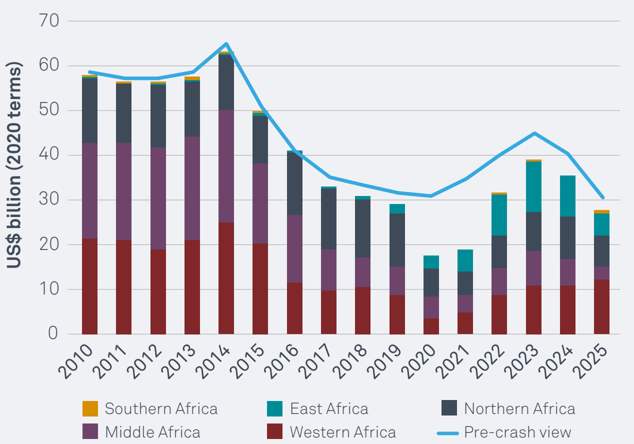
- Upstream value in Africa is down one third or US$200 billion
- LNG and conventional shelf projects have been hardest hit with the value reduced by >50%
- NOCs lose most value overall, but mid caps suffer biggest percentage reduction
- The majors have lost 32% of upstream value

INVESTMENT

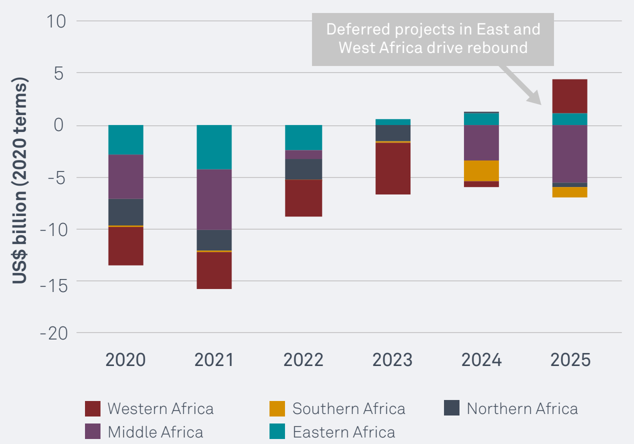
Upstream spend in Africa down US$14 billion in 2020

The share of hydrocarbons in global energy demand could fall from 90% today to 50% by 2050

Africa upstream capital expenditure



Post-crash change in capital expenditure

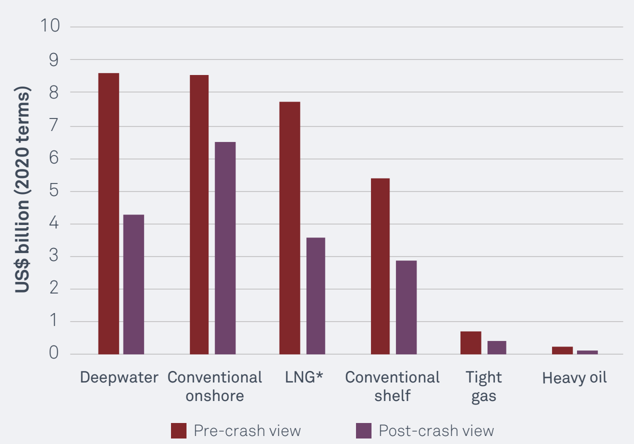


Source: Wood Mackenzie Lens Upstream. Development capital expenditure excludes exploration, abandonment costs, leased FPSOs and non-integrated LNG plant spend.

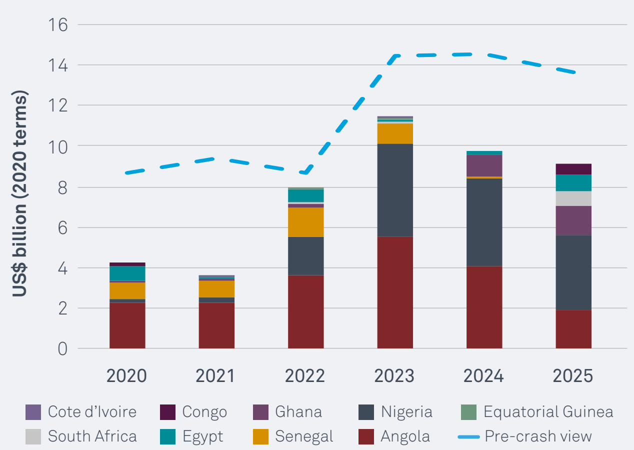
Deepwater and LNG suffer deepest cuts to 2020 capital investment

Onshore lower-cost developments are expected to receive smaller cuts

2020 upstream capex by primary resource theme*



Deepwater capital investment by country



** Cuts to deepwater and LNG resource themes are greatest in absolute terms (US$ billion).*

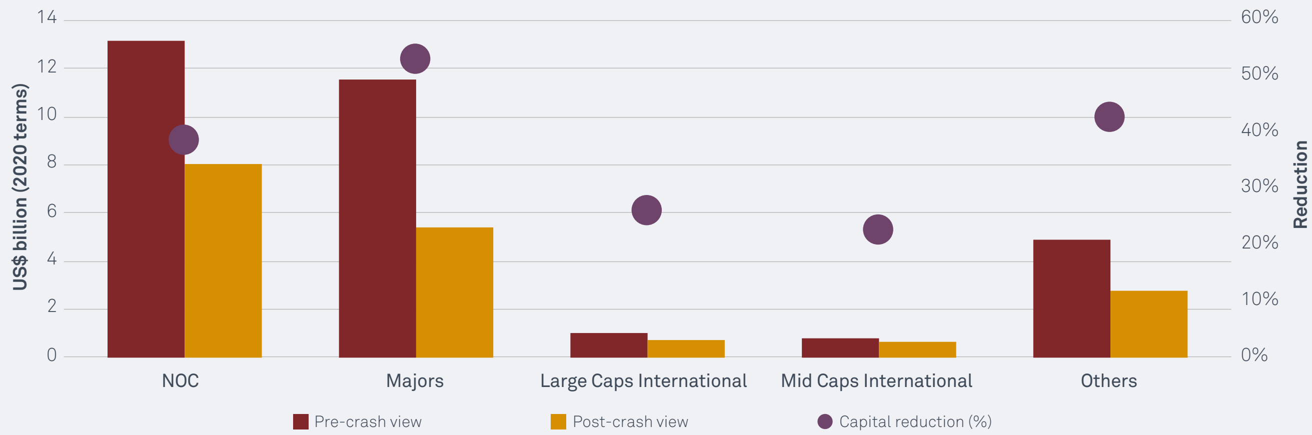
Source: Wood Mackenzie Lens Upstream. Development capital expenditure excludes exploration, abandonment costs, leased FPSOs and non-integrated LNG plant spend. Mozambique LNG, Rovuma LNG, Coral FLNG and Tortue FLNG have the primary designation of LNG

INVESTMENT

The majors will cut the most in Africa: US$6 billion in 2020

Major's capital reductions expected to be greater in Africa than portfolio averages

2020 upstream capital expenditure by peer group

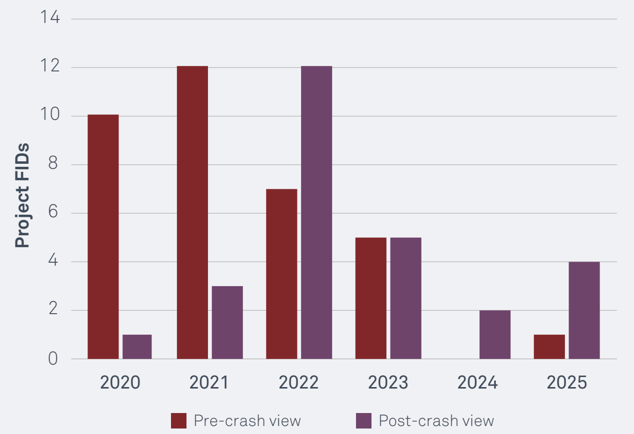


Source: Wood Mackenzie Lens Upstream. Development capital expenditure excludes exploration, abandonment costs, leased FPSOs and non-integrated LNG plant spend.

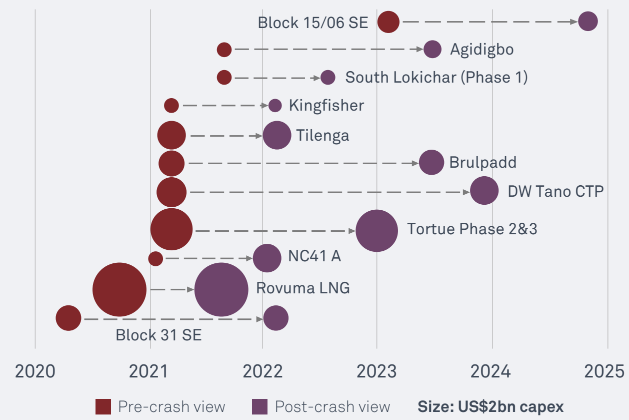
FIDs decimated: down from 22 to just three over 2020-21

Most project deferrals will be in excess of one year, highlighting the scale of the crisis

African FID outlook by year



Key African FID deferrals by capex



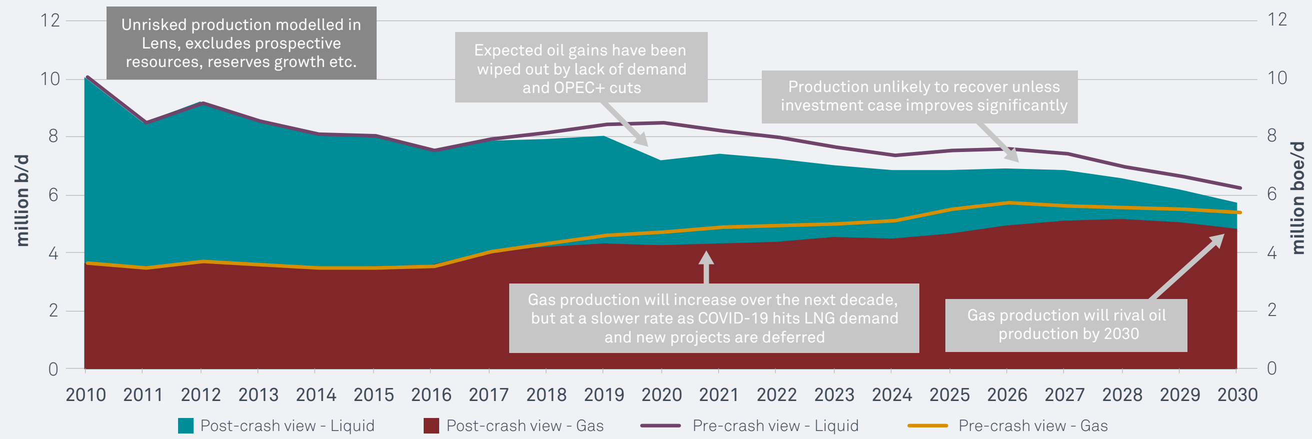
Source: Wood Mackenzie Lens Upstream, Q1 and Q2 2020 pre-FID upstream project trackers. FIDs comprise projects with reserves of at least 50 mmboe.

PRODUCTION

2020 liquids production down 1.3 million b/d, the first year-on-year fall since 2016

Delayed, deferred and cancelled investments will slow the production rebound

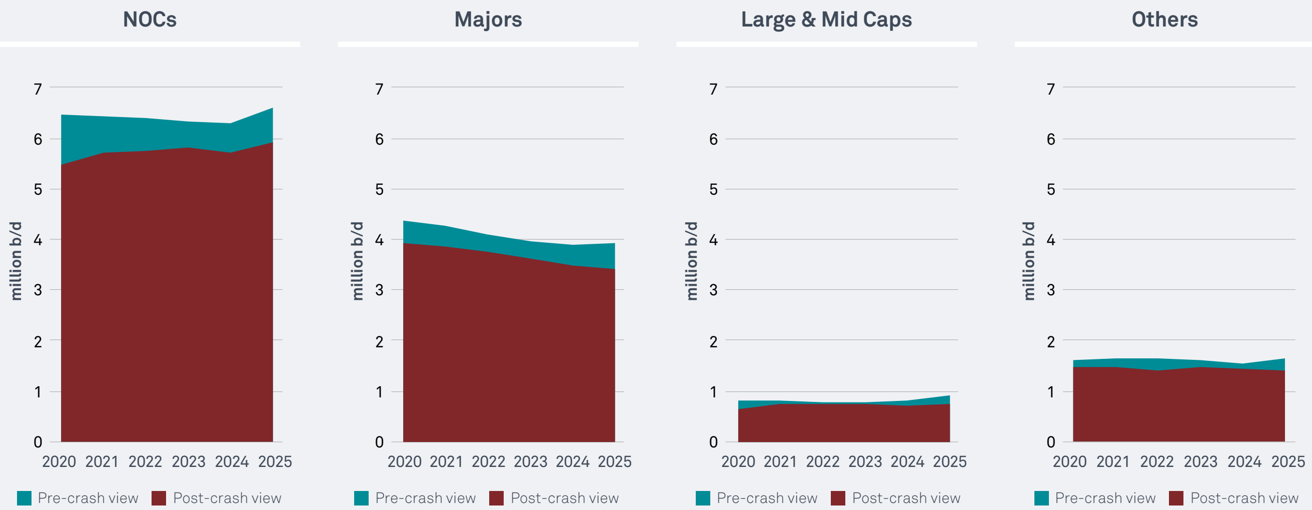
Pre vs post-crash liquids and gas production*



Source: Wood Mackenzie Lens Upstream. The data includes contingent resources (development pending sub-class)

NOCs, led by OPEC+ members, have cut deepest in the short term

Africa-focused Eni and Total account for the bulk of production cuts by the majors in next five years

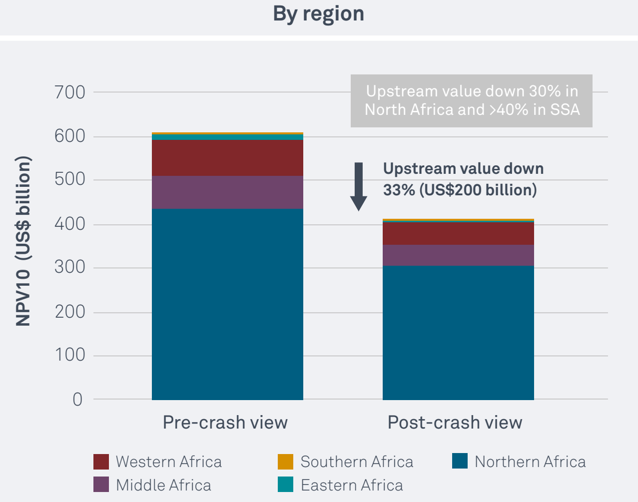


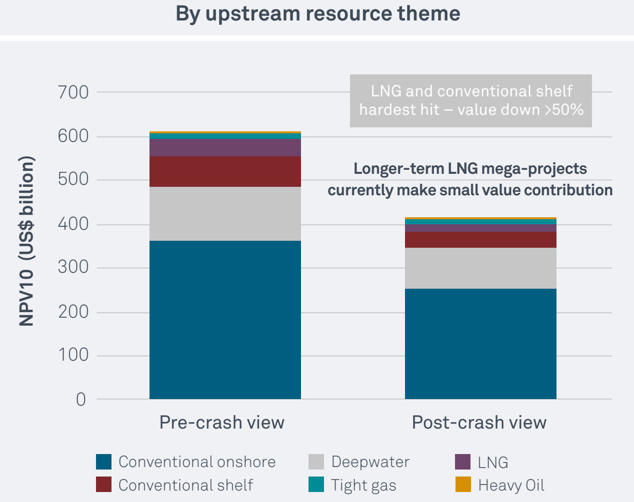
Source: Wood Mackenzie Lens Upstream

ECONOMICS

African upstream NPV10 falls by one third

SSA suffers the biggest reduction, while value from LNG projects more than halves

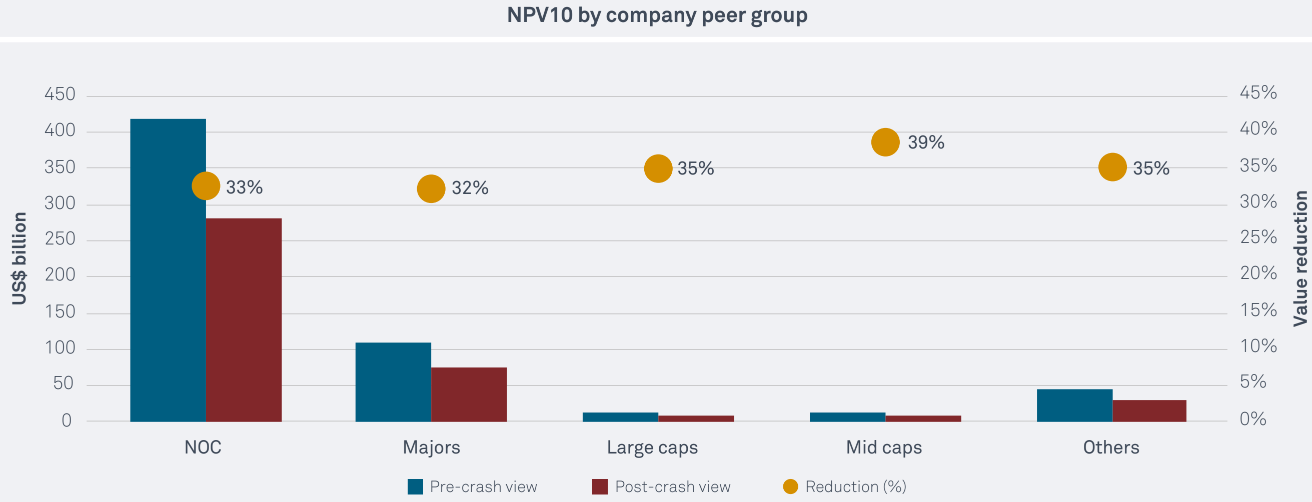




Source: Wood Mackenzie Lens Upstream. Remaining NPV10 at 1 January 2020. Includes a reduction in long-term price assumption from US$60/bbl to US$50/bbl Brent (2020 terms).

Majors lose 32% of upstream value, mid caps fair worse with 39% losses

Impact aligns with hardest-hit resource themes, production shut-ins and project downgrades



Source: Wood Mackenzie Lens. Remaining NPV10 at 1 January 2020. Upstream portfolio valuations only, excluding midstream and downstream assets and other sectors. Please refer to our Corporate Benchmarking Tool (CBT) for full corporate analysis.

Africa Oil Week

1-5 FEBRUARY 2021, CAPE TOWN

For over 26 years Africa Oil Week has been the meeting place for Africa's most senior stakeholders.

It's where they come to set out the future direction of the continents upstream oil and gas sector, secure major deals and lucrative new partnerships. Senior experts including Ministers, CEOs and senior representatives from NOCs, IOCs, independent oil companies, GEOs, oilfield and business service providers make up the attendee list.

The cutting-edge agenda and world-class speakers each year tackle the industry's biggest topics and the next edition will prove pivotal in reigniting the African upstream.

REGISTER NOW

AOW Virtual

7-8 OCTOBER 2020

AOW Virtual is kick-starting the African upstream with an unmissable 2-day online conference.

Packed full of strategic outlooks, a future energy vs natural gas debate, West Africa's hottest data packages and new ventures, and Somalia will be addressing the above ground risks of their recent licensing round. The event is a chance for you to engage in progressive dialogue with the sector's most robust leaders and best of all, content sessions are free to attend.

1-2-1 meetings for those attending the main AOW conference in February 2021 will also be taking place virtually.

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