



# Petrochemical developments and Project Finance

Textiles and Plastics Investors Conclave 2018 at Surat, Gujarat

02 September 2018



# Major Oil and gas sector trends



## Non-hydrocarbon growth strategies and end market development

- Where and how to play in the non-hydrocarbon value chain
- **Creating demand for gas and petchem**
- Majors and IOC's shifting focus
- Capturing value will be different
- **9 Levers of Value and growth strategies**

## Next generation operating models

- **Role of technology in doing future work**
- Reducing complexity and increasing agility
- Competitive advantage at stake
- New technology and models
- Strategy into operating model design
- Digital strategy
- Asset Performance

## Sustainable Value Improvement

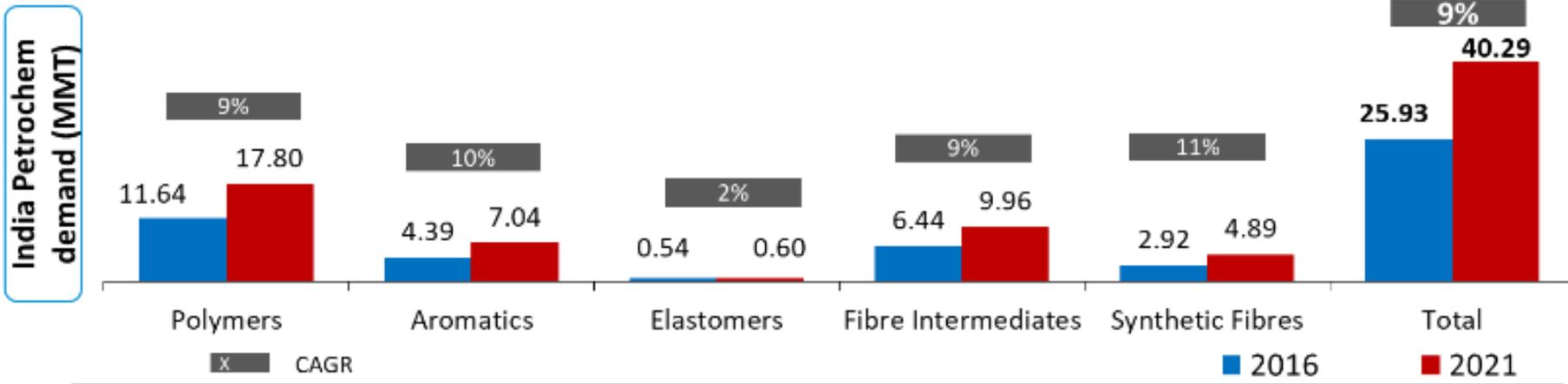
- Lower for longer prices
- Creating cost, margin and production upsides
- Asset level to enterprise opportunities
- **Enduring need to fund the future**
- Big Oil Competitiveness and Virtual Workforce thought capital
- Downstream operating models

## Retail & mobility ecosystem

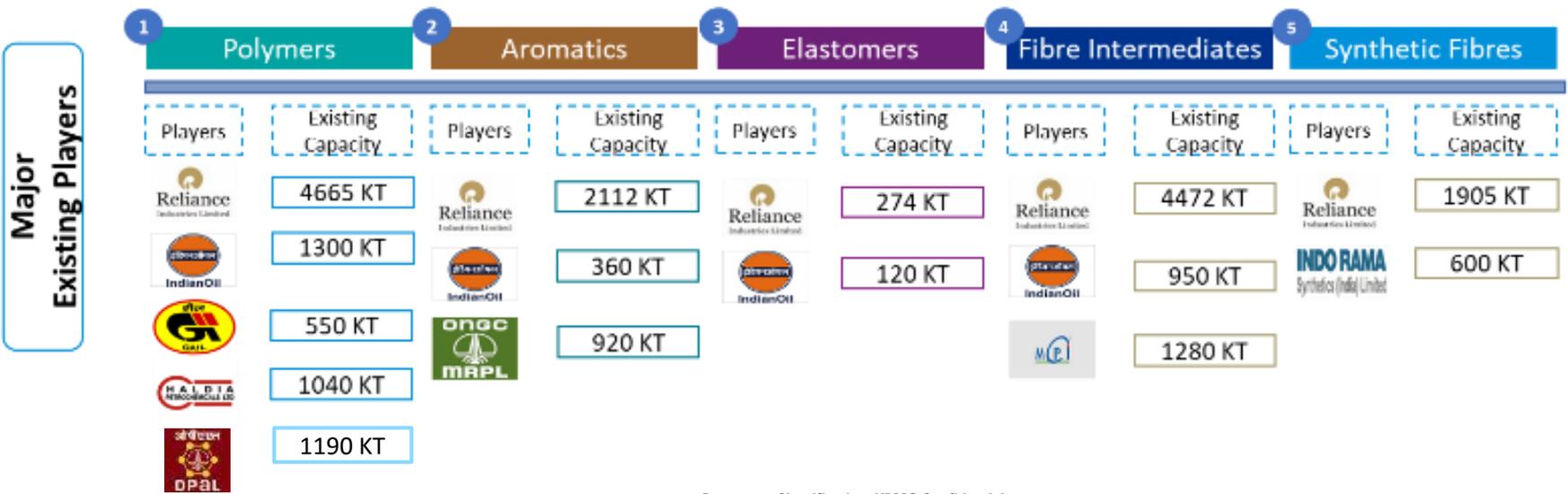
- Capturing value at the customer level
- Strategies for EV and autonomous vehicles (AV)
- De carbonization of mobility
- Technology & Regulation
- Participation Strategy Development across Ecosystem

# Growing petrochemical market in India is witnessing high activity from competition, thus pushing project financing demand

Petrochemical demand outlook appears positive...



...but characterized by increasing competition



# Access to capital for project financing has associated risks for parties involved

A

## Project financing in Oil & Gas sector

Project finance has been less widely used by the oil and gas industry

Oil and gas investments are inherently long term in nature

Relatively poor recent track record of completing projects on-time and on-budget is testing banking sector appetite

Pool of providers also diminishes as the length and size of the funding requirement increases

PF is more prevalent in downstream sector than in more riskier upstream

B

## Specific risks in financing a downstream project

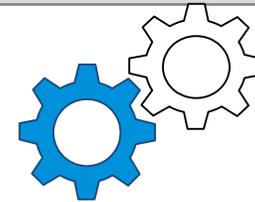
Feedstock supply risk

Construction and completion risk

Market (demand-supply), offtake and pricing risks

Technical risks

Logistics



Video link



## Of specific importance to conventional lenders is the Sponsor capabilities and obligations

- Sponsors experience and capability to bear market risk and cost overruns
- Demonstrating marketing arrangement
- Demonstrating market demand cost competitiveness of the products
- Statutory and Regulatory approvals esp. w.r.t. land and environmental clearances
- Credit strength and experience of project sponsors
- Sponsor support undertakings
- Creation and enforceability of security
- Governance structures, information reporting and transparency
- Project technology and experience/capability of executing contractors
- Project operator's technical expertise and credit strength
- Product marketing arrangements and credit strength of offtaker
- Price risk and hedging arrangements
- Reliable transportation arrangement for feedstock and products
- Financing is available for well structured projects oil & gas sector
- Quality and credit strength of project participants is important

# New project finance structures and recent cases

## Streaming arrangements to unlock capital



Streaming involves companies exchanging future revenue, and the potential upside in prices, for an injection of funds by selling rights to purchase physical future production

Under the streaming agreement, Canada's Franco-Nevada provided Glencore with an upfront payment of \$500m in return for the project's future production of silver and gold.

## Multisource non-traditional Financing for development projects

New development projects are beginning to use a combination of non-traditional sources of funding to finance substantial and capital intensive green field projects.

A good current example of this is Ophir Energy's FLNG project in Guinea. Plans to fund the project include an oil services company receiving equity against project development costs, deferred cash payment terms to contractors (until the project is cashflow positive) & long term pre-paid gas sales



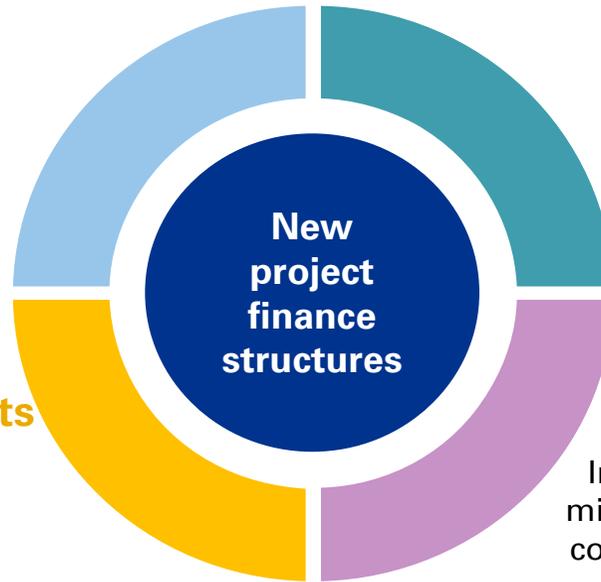
## Customer pre-payments used to support acquisitions

Alcoa tied up gas supplies from Apache corp's O&G assets in Western Australia – upfront pre-payment on future gas supply of US\$500 million – arrangement provided the purchaser with long term certainty of cash flows, in addition to upfront funding to finance the acquisition.

## Collaboration with key stakeholders in restructuring

In 2015, rapidly falling iron ore prices saw miner Atlas Iron enter into a trading halt and commence discussions with a number of its stakeholders.

Atlas was able to continue its operations through an equity raising, debt to equity conversions by contractors in respect of substantial payments in arrears and an innovative collaboration agreement with its key contractors to assist in significantly lowering its production costs.



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\*FY17: 1 October 2016 — 30 September 2017.

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<sup>1</sup> The Forrester Wave™: Information Security Consulting Services, Q3, 2017

<sup>2</sup> The Forrester Wave™: Business Transformation Consultancies, Q3, 2017

<sup>3</sup> IDC MarketScape: Worldwide Digital Transformation Consulting and Systems Integration Services 2017 Vendor Assessment (doc#US41523517, June 2017)

<sup>4</sup> HFS Blueprint Report on Digital Technology Strategy and Consulting Services 2017





# Thank you

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