INSIGHT

AUGUST 2021

Shell to divest its entire Nigeria JV portfolio

Shell and Nigeria go back a long way

Shell has been active in Nigeria since the 1930s. It's no exaggeration to say that Nigeria helped transform the company into the supermajor IOC we know today.

Now, 63 years after producing its first barrel in Nigeria, it plans to divest *all* of its operated JV licences held by the Shell Petroleum Development Company (SPDC). This includes a 30% interest in 19 Oil Mining Leases (OMLs)[1].

This is a radical step which would have seemed unlikely only 12 months ago, but is highly symbolic of what the Energy Transition means for IOCs in Africa.

The Niger Delta: incompatible with Shell's net-zero ambition

Emissions from Shell's assets in the onshore and shallow water delta are among the highest in its global portfolio. This is because of ageing infrastructure, under-investment, vandalism, continued flaring and the harsh operating conditions.

Until now, Shell has sold oil blocks but kept gas blocks supplying NLNG. This has changed, perhaps surprisingly, given that Shell seeks 55% gas in its global portfolio by 2030. Shell's gas assets have the lowest emissions intensity within the JV, although still comparatively high compared with its global average.

The integration of these assets with oil infrastructure coupled with the ever-present security risks may have further persuaded Shell that a clean break from the onshore delta is, on balance, preferable.

Although Shell would rely on third party gas supply into NLNG (in which it holds 25.6%), existing contracts would be novated to a buyer, while it can meet most of its Train 7 supply from OML 144, which is outside the JV. The domestic gas market continues to be extremely challenged as evidenced by the recent announced 13% cut in gas-to-power prices.

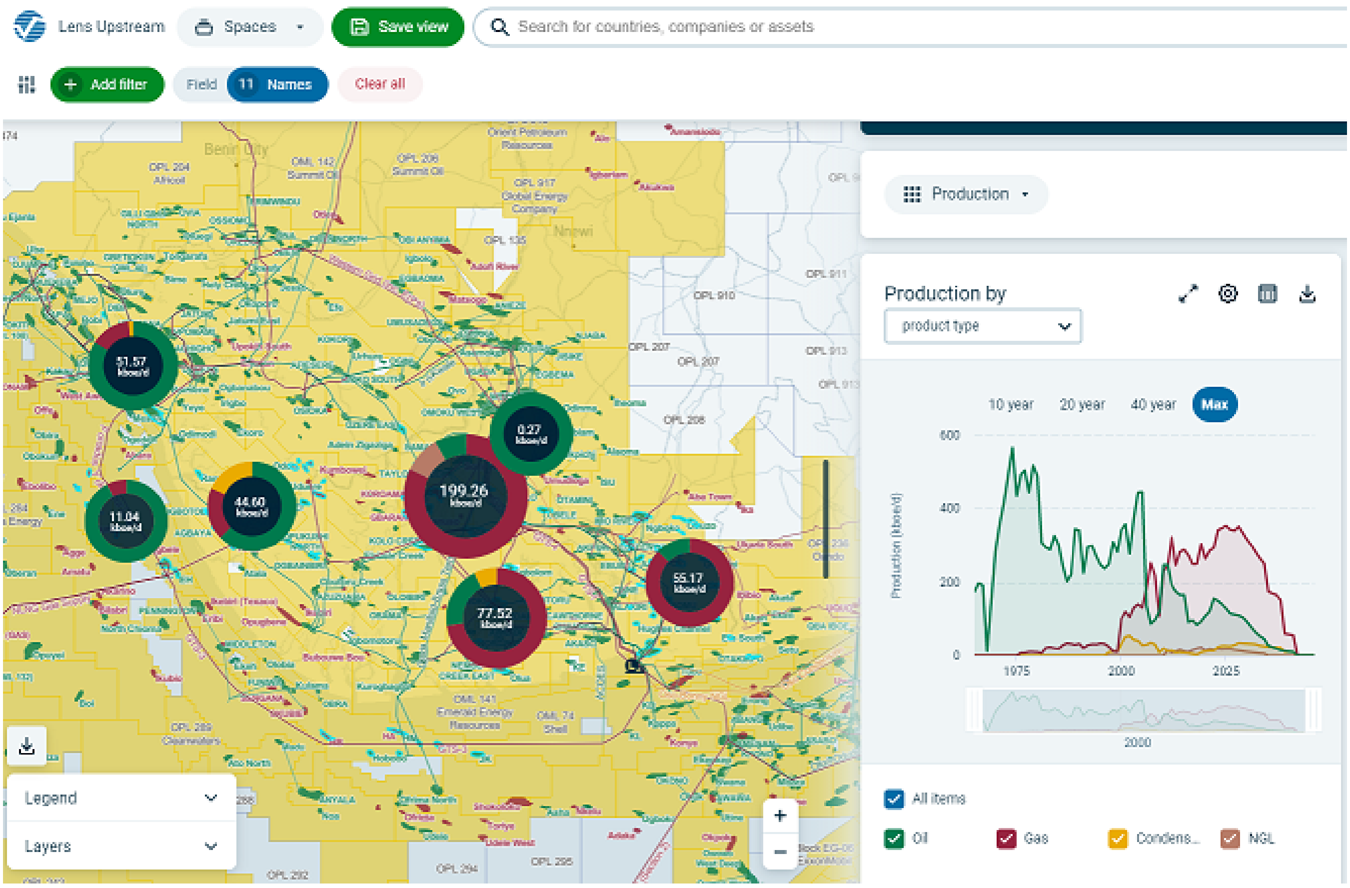
Rather than sell single OMLs, Shell is seeking buyers for asset packages in the eastern, western and shallow water delta.

Eastern Delta (export via Bonny)	Western Delta (export via Forcados)
OML 11	OML 33*
OML 20	OML 35
OML 21 (Assa North)	OML 36*
OML 22 (Enwhe)	OMLs 43 & 45 (Forcados-Yokri)
OML 23 (Soku)	OML 46
OML 25	
OML 27	**Shallow Water (FPSO export)**
OML 28 (Gbaran-Ubie)	OMLs 74 & 77*
OML 31*	OML 79 (EA Area)
OML 32	*undeveloped assets

Shell JV in Lens

Lens Upstream subscribers can click through to a pre-filtered view of the joint venture assets, including production, costs, emissions, and our valuations.

Shell JV



To view the portfolio's resources, including undeveloped assets, click here.

Setting the ground rules

Before all that though, Shell must negotiate with NNPC (holder of 55% in the JV assets), on the terms of a sale. This could cover NNPC’s pre-emption rights, treatment of outstanding JV liabilities including decommissioning, the fate of the JV's terminals, transfer of staff, and host community approval.

Shell's priority is **identifying credible buyers and ensuring deal completion**. It wants to limit negotiations to hand-picked bidders only, thus avoiding a long drawn-out process. But it needs NNPC's buy in.

Can buyers be found?

Who wants high-cost, emissions-intensive assets in the Niger Delta? Not many. Yet Nigerian independents and new entrants are eager to acquire under-invested assets with plenty of volume upside.

Playing at home, their acceptance of risk differs markedly from international E&Ps, so there will be few in the latter category. But in the Energy Transition era, can bidders raise enough finance to a) acquire, and b) invest in, a challenging portfolio of swampy assets?

Deal financing will be necessarily complex to mitigate risks. The recent OML 17 transaction highlighted that with a consortium of buyers backed by local and international lenders with multiple layers of debt. Commodity traders will see offtake opportunities in return for funding and one or two may even consider equity.

Shell itself may provide finance to help smooth deals. It may even maintain an indirect interest in the OMLs, perhaps within a special purpose vehicle, coupled with a clear exit strategy. This would get assets off the balance sheet, and provide more comfort to lenders. Contingent payments might also feature. Innovative solutions will be needed.

A complete sell-off would be historic. However, all 19 OMLs will be extremely hard to shift in the current environment. Expressions of interest are due by 10 September.

What will drive value?

There could be as much as 4 billion boe (30% net) across the JV. However, we consider only 20% to be commercial due to a lack of investment, crude theft, insecurity and gas market constraints. Five of the OMLs are undeveloped.

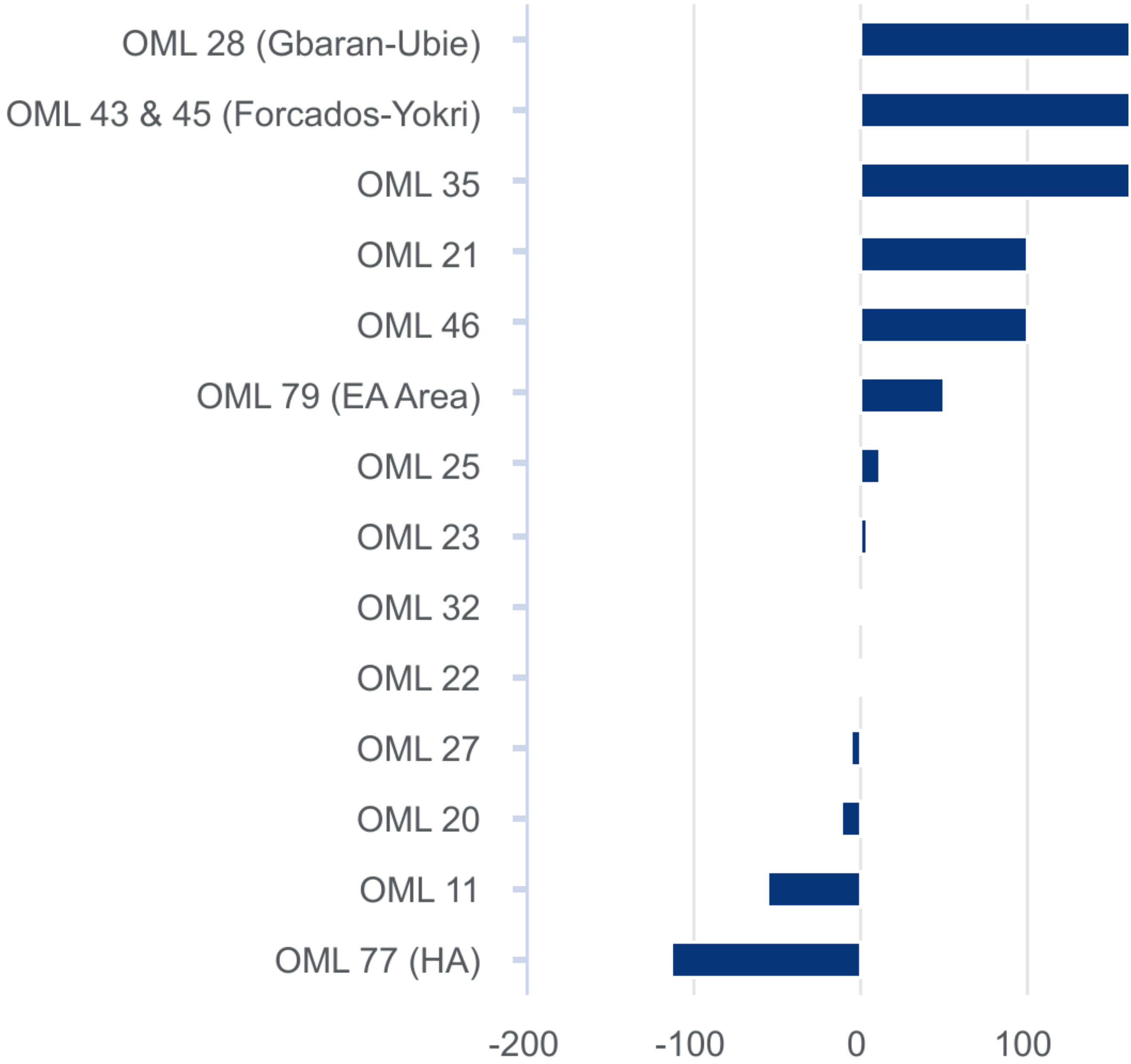
Our valuation of Shell's 30% in the JV (excluding export pipelines and terminals) is US$2.3 billion, (NPV10, Jan 2021, US$50 long-term oil price). But this is based on the current sub-optimal, business-as-usual investment profile.

A competent buyer/operator, giving priority to the assets, could commercialise much more than 20% of the resource base, although the availability of funding for the JV partners will, as ever, dictate how much.

The recently passed PIB overhauls the fiscal regime offering materially lower oil royalties and taxes. Hence, there is much more upside than downside to our base case, which bidders will need to carefully quantify.

Few apart from Seplat have created value through M&A. Overpaying for resources in the ground has been disastrous for some previous buyers, so an appreciation of what is fair value given all the above-ground risks and opportunities is essential.

Net NPV10 by OML



Source: Wood Mackenzie LENS

Based on 30% equity share

Nigeria emissions intensity

Source: Wood Mackenzie LENS

Shell's portfolio only

Net NPV10 by OML

Source: Wood Mackenzie LENS

Based on 30% equity share

Does this mean that Shell is leaving Nigeria?

Far from it. Its deepwater business run by SNEPCO, is centred on OML 118. That's been hugely successful since Bonga came onstream in 2005. Deepwater Nigeria offers economic advantage through the scale and quality of the reservoirs and resources; as well as lower emissions intensity through a single production hub.

A new negotiated set of fiscal terms similar to the original vintage will enable fresh investment. And of course, it is removed from the risks of the onshore delta.

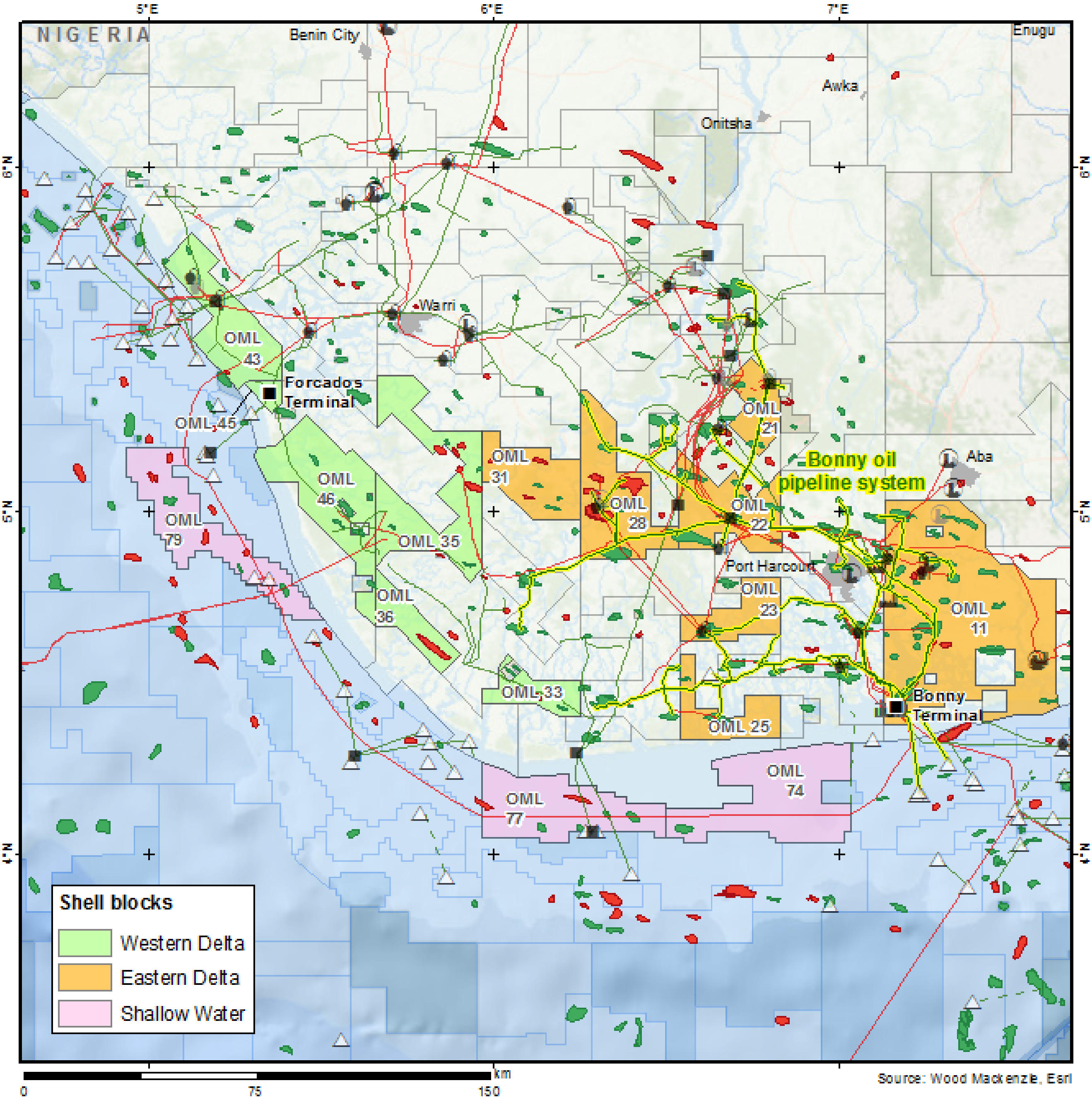
Production from OML 118 will grow later in the decade driven by new wells on Bonga North, and eventually the long-awaited Bonga SW, although FID there will be next year at best.

After decades of dominance in Nigeria, Shell is preparing for a new era with a much smaller, advantaged portfolio.

To fully understand and evaluate the opportunity set being marketed by Shell and potentially other IOCs, Wood Mackenzie's Nigeria consulting team can support you. Please contact mansur.mohammed@woodmac.com or contact us via our consulting web page.

[1] TotalEnergies and Eni may also divest their respective 10% and 5% JV interests, although this is unconfirmed.

Shell's JV assets



These materials, including any updates to them, are published by and remain subject to the copyright of the Wood Mackenzie group ("Wood Mackenzie"), and are made available to clients of Wood Mackenzie under terms agreed between Wood Mackenzie and those clients. The use of these materials is governed by the terms and conditions of the agreement under which they were provided. The content and conclusions contained are confidential and may not be disclosed to any other person without Wood Mackenzie's prior written permission. Wood Mackenzie makes no warranty or representation about the accuracy or completeness of the information and data contained in these materials, which are provided 'as is'. The opinions expressed in these materials are those of Wood Mackenzie, and nothing contained in them constitutes an offer to buy or to sell securities, or investment advice. Wood Mackenzie's products do not provide a comprehensive analysis of the financial position or prospects of any company or entity and nothing in any such product should be taken as comment regarding the value of the securities of any entity. Wood Mackenzie does not warrant or represent that these materials are appropriate or sufficient for your purposes. If, notwithstanding the foregoing, you or any other person relies upon these materials in any way, Wood Mackenzie does not accept, and hereby disclaims to the extent permitted by law, all liability for any loss and damage suffered arising in connection with such reliance. Please also note that the laws of certain jurisdictions may prohibit or regulate the dissemination of certain types of information contained in these materials, such as maps, and accordingly it is your responsibility to ensure that any dissemination of such information across national boundaries within your organisation is permitted under the laws of the relevant jurisdiction.

Copyright © 2021, Wood Mackenzie Limited. All rights reserved. Wood Mackenzie is a Verisk Analytics business.

Verisk™

Wood Mackenzie™, a Verisk business, is a trusted intelligence provider, empowering decision-makers with unique insight on the world's natural resources. We are a leading research and consultancy business for the global energy, power and renewables, subsurface, chemicals, and metals and mining industries. For more information visit: **woodmac.com**

WOOD MACKENZIE is a trademark of Wood Mackenzie Limited and is the subject of trademark registrations and/or applications in the European Community, the USA and other countries around the world.

Client Helpdesk:

Europe +44 131 243 4477
Americas +1 713 470 1700
Asia Pacific +65 6518 0888
Email support@woodmac.com
Website www.woodmac.com