



Are national oil companies the new international oil companies?

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This overview is intended for non-US audiences.

Many global investors see national oil companies (NOCs) as turning to new strategies such as IPOs to help improve their operations, enhance technical skills, and build global competitiveness.

The next generation of NOCs

Over the past few decades, NOCs have steadily overtaken international oil companies (IOCs) in terms of size and scope, and today the production of leading NOCs by far exceeds that of even the largest IOCs. For example, Saudi Aramco alone produces over 60 percent of the volume produced by the top five IOCs.¹ The three largest NOCs — Saudi Aramco, Gazprom and Iran — produce more than 25 percent of global hydrocarbon output. Furthermore, NOCs are now estimated to control over 85 percent of global oil reserves and much of the global oil and gas infrastructure.² In addition, a large portion of the world's estimated undiscovered

reserves are located in the countries where NOCs have direct and privileged access.

The NOCs were originally established to primarily facilitate governments' control over hydrocarbon reserves and to generate governmental budget revenues. These initial objectives remain a priority with NOCs in general. However, the focus today of most NOCs is undergoing a gradual but significant change. A decline in oil prices since 2014 and a global and multilateral push to diversify away from hydrocarbon dependency have added additional areas of focus and new strategic dimensions to the NOC thinking.

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¹ The IOCs And The NOCs In The Modern Energy Context, IEF, <https://www.ief.org/news/the-iocs-and-the-nocs-in-the-modern-energy-context>

² Ibid.

New strategies for NOCs

KPMG professionals believe the current strategies of the NOCs appear to include some or all of the following:



Improve focus on operational efficiency and cost reduction

When commodity prices radically dropped, NOCs streamlined operations and introduced an array of measures designed to enhance free cash flows and reduce production costs. Now that prices have increased, this discipline resulted in substantial additional free cash flows to support long-term strategic objectives.



Continue the push for technological excellence

A good example is Petrobras and its excellence in deep water drilling technologies.³ The renewed push for excellence is currently achieved not only through proprietary technologies but also through the outsourcing of certain key business processes to service and engineering companies. The growing adoption of automation, Big Data and artificial intelligence will provide additional benefits.



Enhance international presence to get access to new markets and resources

It seems that many NOCs that previously preferred to look for reserves locally are now considering international expansion. Moreover, a number of NOCs have not made their intentions public.



Diversify beyond oil and gas

In line with IOCs, the NOCs are looking for diversification of their existing portfolios away from hydrocarbons and into alternative energy. For instance, Saudi Aramco recently announced new plans to diversify its energy mix and produce 10 percent of its power from renewable sources in the next 6 years.⁴ The estimated investments in these renewables may amount to US\$50 billion. Sonatrach and Eni agreed to a deal to strengthen their renewable energy partnership in Algeria.⁵

*Sources: The World's 25 Biggest Oil Companies, *Forbes*,

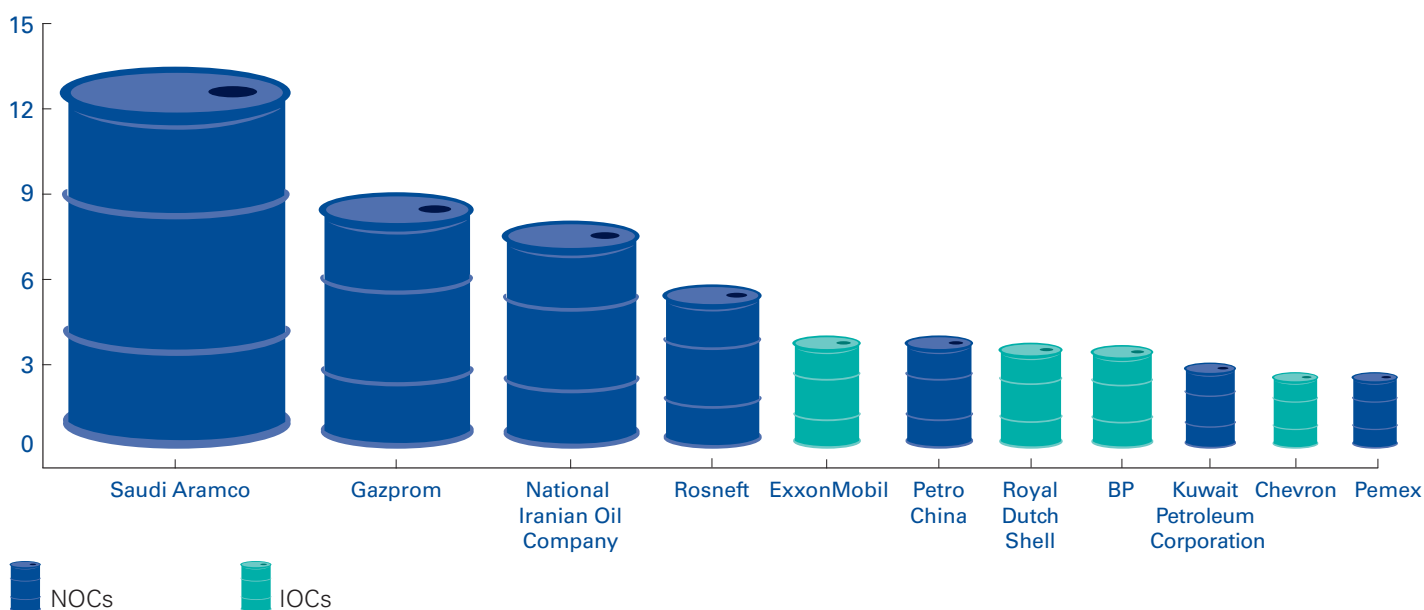
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<https://www.rosneft.com/press/releases/item/190113/>

³ [petrobras.com.br/en/our-activities/performance-areas/oil-and-gas-exploration-and-production/pre-salt/](https://www.petrobras.com.br/en/our-activities/performance-areas/oil-and-gas-exploration-and-production/pre-salt/)

⁴ <https://www.reuters.com/article/saudi-renewable/saudi-arabia-pushes-ahead-with-renewable-drive-to-diversify-energy-mix-idUSL8N1HP10B>

⁵ <https://www.reuters.com/article/us-eni-algeria-renewables/eni-strengthens-renewable-energy-ties-with-algerias-sonatrach-idUSKBN1EC20J>

Leading oil and gas companies by production (million boe/d)



Data: the most recent available from public sources.

Choosing the right time to IPO

NOCs need to carefully consider the timing of an IPO because taking on public market activities and pressures is a major and complex undertaking for any energy company. For example, Royal Dutch controlled 70 percent of Shell Oil's shares in 1985, when it purchased Shell Oil's outstanding stock for US\$60 a share.⁶ The 30 percent minority public shareholding was largely to involve US investors and stakeholders more closely; however, the repurchase indicated that the costs may have outweighed the benefits.

In addition, unless a NOC is very efficient, floating equity ahead of

improvements may result in lower equity value for the company. Prior to offering to BP, Amoco to be acquired (1999–2000), Atlantic Richfield Company (ARCO) cut nearly 5 percent of its workforce and reduced costs by US\$500 million. ARCO leadership cited increasing growth and profit pressures amid leaner and larger companies, and referred to itself as a mid-sized company target amid anticipated industry consolidation.

An IPO might be appropriate only after a NOC becomes truly efficient and competitive, and NOCs can consider a range of starting points for equity floats depending on what stage they have

reached in terms of cost efficiency and capability specialization. That said, a small float, may provide an added stimulus to the commitment to improve transparency and competitiveness, without leaving significant value on the table.

In any case, the effective implementation of the strategies outlined on the previous page will help strengthen the market appeal of NOCs and provide investors with new ways to rationalize their oil and gas portfolio allocations.

*Sources continued from pg. 2, The World's 25 Biggest Oil Companies, *Forbes*
<https://www.exxonmobil.com/press-release/exxonmobil-earns-197-billion-2017-84-billion-fourth-quarter>
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pemex.com/en/investors/financial-information/Reporte%20de%20Resultados%20no%20Dictaminados%20%20Archivos/Annex%204Q17.pdf

⁶ Shell Oil Shareholders Awarded \$110 Million, *New York Times*, 13 December 1990, <https://www.nytimes.com/1990/12/13/business/shell-oil-shareholders-awarded-110-million.html>

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