Featured article

Guest authored by NJ Ayuk

Africa is entering the era of independent energy companies

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> **NJ Ayuk**
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> Executive Chairman of the African Energy Chamber and Chief Executive Officer of Centurion Law Group

Biography

NJ Ayuk is Executive Chairman of the African Energy Chamber, CEO of pan-African corporate law conglomerate, Centurion Law Group, and the author of "Big Barrels" as well as Amazon and the Wall Street Journal's bestselling "Billions at Play: The Future of African Energy and Doing Deals".

Please note that the opinions expressed in this section of the Annual Report are those of NJ Ayuk. They do not purport to reflect the opinions or views of Savannah Energy.

When the world thinks about M&A hotspots, Africa probably isn't at the forefront of one's mind.

And when it comes to businesses known for robust M&A deal making, oil and gas does not necessarily stand out, either.

Yet if recent activity is any indication, all eyes should be on M&A in Africa's upstream sector, where a record US$21 billion in assets changed hands in the first nine months of 2022 alone. According to market intelligence company Rystad Energy, that figure represented a three-time increase in deals over 2021 and a four-time increase compared to 2020[1].

Much of the deal-making has to do with global majors streamlining their African portfolios and independent companies such as Savannah Energy picking up the divested assets.

Among the most notable 2022 transactions, in fact, was Savannah agreeing to buy the South Sudan oil and gas portfolio of PETRONAS, Malaysia's national oil company ("NOC"), through the acquisition of its subsidiary, PETRONAS Carigali Nile Limited.

The deal, valued at US$1.25 billion, includes interests in 64 producing fields that averaged gross production of 153.2 Kbopd in 2021[2].

Although Savannah's shareholders and the South Sudan government must still approve the PETRONAS purchase, the deal is further evidence of Savannah's commitment to helping eliminate African energy poverty, which is especially important considering South Sudan has the lowest access to electricity in Africa, at just 7%. And there is every reason to believe that Savannah's growing presence in the region will help improve South Sudan's ratings in international metrics related to sustainable growth and poverty reduction. The country currently ranks near the bottom of the World Bank's Human Capital Index (172 out of 174 global economies)[3] and the United Nation's Human Development Index (191 out of 191)[4]. However, by creating jobs through local content – including more opportunities for women – it is clear that Savannah is intending to make a significant investment in South Sudan's future as a more prosperous, healthy, and productive society. Or, as Savannah itself would say, it is delivering ***Projects that Matter***.

Greener pastures

Savannah is just one of many independents filling the exploration and production gap, as some of the best-known names in energy scale back their involvement in African portfolios or exit the continent altogether.

Aerial photo of Juba

Driven by investor and activist demands to "deliver higher returns more sustainably"[5], many international oil companies ("IOC") are looking quite literally for greener pastures, seeking lower-carbon opportunities outside Africa. For example, in addition to divesting its Chad and Cameroon holdings, ExxonMobil has indicated that it is pulling out of Ghana[6] and says it will end operations in Equatorial Guinea after its licence there is up in 2026[7]. ExxonMobil has also announced its intention to divest a significant portion of its Nigerian portfolio, as have Shell and Chevron[7]. PETRONAS had been operating in South Sudan for more than 24 years when it decided to shed its oil and gas assets there.

Savannah, for its part, has found a way to balance green and more conventional energy all on the same continent. For example, the Company's Renewable Energy Division will build and operate Niger's first wind farm, which will produce up to 250 MW of utility-scaled energy.

Risks and revenues

It would not be accurate to say that "big oil" has scrapped its African plans altogether. Italy's Eni, France's TotalEnergies, and Britain's Royal Dutch Shell Plc (to name a few) continue to have a strong, and, in some cases, growing, presence on the continent. Eni's Chief Executive, Claudio Descalzi, went so far as to say the EU should look to Africa as a source to replace Russian energy imports in the wake of Russia's invasion of Ukraine. As energy journalist Tom Wilson wrote this year in the Financial Times, Africa was Eni's first "port-of-call" when the company needed to replace the 20 billion cubic meters of gas that Italy used to import from Russia each year[8].

Even ExxonMobil still has a meaningful presence in Africa, having pivoted to Mozambican gas[9] in addition to finding oil off Angola. Algeria's national oil company, Sonatrach, also remains a standard bearer for domestic energy production; in fact, with 154 subsidiaries, Sonatrach is sometimes referred to as the first African oil major.

However, if the divestiture trend among majors continues, Africa faces a very real risk that the economies that depend on energy exports for their revenues will contract amid stranded assets and untapped reserves, and the promises of prosperity (not to mention the end of energy poverty) will vanish.

Focus on independents

That's why the focus is increasingly on independent oil and gas companies, such as Savannah, which are finding sustainable ways to grow their footprint in Africa. In just the past year, asset opportunities have attracted multiple independents, mostly from Europe and Africa itself. When one CEO said this was "a great time to be in the industry and a great time to buy good quality assets at affordable prices", he was no doubt speaking for many others.

Today, those companies are working to acquire, or have finalised deals, for ExxonMobil's shallow water business in Nigeria and Sonangol's producing shallow water block offshore Angola. A pair of independents have joined forces to create a new company that will own one billion barrels worth of resources and is expected to produce 100,000 bopd by 2025[10]. Independents are actively unlocking reserves all over the continent – Congo, South Africa, Equatorial Guinea, Guyana, Namibia and Gabon – and are also boosting production from mature fields. One independent recently made history offshore Cameroon when it established the first floating liquid natural gas ("FLNG") plant to operate from a converted LNG tanker. Incidentally, that facility is only the second FLNG plant in the world[11].

Featured article continued

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An example of a wind farm, similar to that envisaged for Savannah's Parc Eoilen de la Tarka wind farm project, Niger

Focus on independents continued

Although independents as a whole currently produce about 8% of the continent's annual hydrocarbon output, compared to IOCs and NOCs producing nearly 75%, it is likely they will play an even greater role going forward. Granted, the scales aren't about to tip dramatically any time soon – there is a tremendous amount of ground to make up – but I am encouraged to see these companies recognise Africa's promise and potential.

I truly believe that Africa will not achieve the energy future it wants, including making energy poverty history, without independent energy companies.

A critical time for Africa

It is no secret that an overwhelming number of Africans lack adequate access to reliable electricity. You have probably seen the same statistic again and again: nearly 600 million Sub-Saharan Africans live without electricity[12]. Incredibly, things are getting worse rather than better. Following a decade of increased access, between 2019 and 2021, the number of Africans with electricity fell by 4%[13].

Extending electricity to millions of people will do more than provide the comforts that most of the rest of the world enjoy; it will also bring new prosperity to impoverished nations. After all, you can't participate in a global economy when it's impossible to run a business, operate a factory or keep your computer powered up.

And while industrialisation is highly desirable, combined with Africa's rapid population growth, it is creating the potential for a new problem; demand could easily outstrip supply. When global consultants McKinsey modelled African energy demand, they discovered that it could be 30% higher in 2040 than it is today[14].

Yet as the race to net zero heats up, the continent is being pressed to turn away from hydrocarbons and participate in the energy transition at the same pace as the West. This is happening even though Africa consumes less than 6% of the world's energy. It is happening even though Africa is responsible for only 2% of cumulative global emissions[15]. And it is happening despite the fact that, even if Africa were to use all its known reserves of natural gas, the continent's share of global emissions would only rise to 3.5%[8].

Fortunately, we are seeing pushback against the pressure.

As Valérie Marcel, an energy expert at think tank Chatham House, said[16]:

"Long-term polluters have no right to tell low-income nations with significant energy gaps that they can't use or sell their oil or natural gas.There should be room in the global carbon budget to allow poorer countries to develop fossil fuel assets, if doing so will help provide them with much-needed energy and revenue."

Of course, developing those assets takes more than just willing partners like Savannah.

It also takes money.

Evolving investor attitudes

There is no question that when energy majors began folding up operations in Africa, it created expansion opportunities for independents. The biggest problem was that traditional financing for traditional energy projects contracted at the same time, especially as capital providers prioritised ESG performance over financial returns in their calculations (not that ESG and financial goals cannot be met simultaneously; the two are hardly mutually exclusive).

It would be misleading to suggest there is no money flowing into African energy – to the contrary, Rystad Energy reports that total capital expenditures for oil and gas exploration in Africa grew during the period between 2020 and 2022, increasing from US$3.4 billion to US$5.1 billion[17].

The problem, as the Wall Street Journal reported, was that for five years or so "endowments, pension funds and other so-called institutional investors shunned the oil and gas industry because of big losses and concerns about climate change"[18].

There are signs, however, that the once-faltering appetite for financing oil and gas developments has rebounded – especially, as Eni's Descalzi hinted, because the invasion of Ukraine has improved the prospects for African energy exploration, production, and exports. Yet it's not just EU-based investors whose attention is on Africa.

A recent analysis of Rystad Energy data said that in July 2022 more than 5,000 institutional investors held shares and bonds in companies developing and expanding Africa's fossil fuel projects – to the tune of some US$109 billion. Of the top 23 investors, who represent half of the US$109 billion total, 14 are headquartered in the US, the rest are in Canada (six) and Europe, India, and South Africa (one each). Heading the list is American multi-national BlackRock, which has holdings in excess of US$12 billion[17]. While BlackRock has said it expects demand for traditional energy to fall as alternative energy sources become more affordable, its investment in African oil and gas is proof it does not see the market drying up any time soon[19]. BlackRock is also investing in African renewables – early in March it bought a stake in a Kenyan wind farm – among other businesses. After BlackRock, the largest institutional investors in African oil and gas are Vanguard, with holdings of US$8.4 billion, and the Norwegian Government Pension Fund, with US$3.7 billion[17].

Banks in the mix

Commercial banks also seem to be increasingly eager to back new African fossil fuel projects[17].

The change in attitude can be traced to several sources.

For one thing, in 2022 at least, oil and gas was an S&P top performer, soaring compared to the tech, consumer products, and communications sectors. Although this year's gains are more modest so far, oil prices are up, many companies are reporting record profits, and the forecast remains bullish.

Second, the world is waking to the reality that the transition to renewables isn't happening as quickly as expected. To meet the demands of an energy-thirsty world – and especially in Africa, where population growth and urbanisation are creating more need than ever – we simply must have new supplies of oil and natural gas. As the Wall Street Journal suggested, amid projections that the "world might face shortages in the years ahead… the near-term upside for those willing to bet on fossil fuel producers" is bringing back investors who may have shunned oil and gas stocks in the recent past.

And then, of course, there is Europe's determination to wrest itself from relying on Russian energy.

"The combination of high commodity prices and increased geopolitical relevance is forcing many institutional investors to rethink their aversion to hydrocarbon investments," Dan Pickering, founder of Pickering Energy Partners, told the Wall Street Journal in May 2022. "The upside is too compelling to ignore, so they are dipping their toes back in the water"[18].

A win-win for independents and Africa

Few would disagree that African oil and gas is the last great frontier for energy exploration. There are more unexplored basins and recently proven reserves on the continent than anywhere else in the world[20]. No wonder independents are drawn to Africa.

Fortunately, those same companies are drawn not just to doing well for shareholders but also to doing what's right for Africans. Like its peers, Savannah is dedicated to having a significant socio-economic impact at the local and regional level. Whether that's paying employees, contractors and suppliers fairly or investing in community projects, the contribution goes far beyond the individual. And as the business environment allows independents to expand their presence in Africa, I believe they will also expand their positive impact, creating a positive ripple effect into every part of the continent's society and making the story of African oil and gas M&A one that has real meaning for everyone.

NJ Ayuk, guest speaking recently at Africa Energy Week 2022, Cape Town, South Africa.

Footnotes

NJ Ayuk Article –
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1. Source: Energy capital power, Africa: Upstream Mergers and Acquisitions Hit Record Level in 2022.
2. Source: Oil & Gas Journal, Savannah Energy to acquire Petronas' South Sudan portfolio.
3. Source: UN's 2021 Human Development Index.
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6. Source: The Africa Report, Nigeria: Can opposition withstand four years of Tinubu's presidency?
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9. Source: Seeking Alpha, Exxon Mobil: Africa To The Rescue.
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11. Source: Oil Review, Independent oil and gas companies are here to stay.
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13. Source: Financial Times, Africa needs $25bn a year of investment to boost energy provision, says IEA chief.
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15. Source: IEA.
16. Source: Financial Times, Developing countries fight for their right to fuel growth.
17. Source: Offshore Energy, Africa turning into hotspot for oil & gas exploration as investments reach $5.1 bln in 2022.
18. Source: The Wall Street Journal, Big Investors Reconsider Oil and Gas Upside as Supplies Remain Tight.
19. Source: BlackRock, The sustainability shift: the impact on energy investment.
20. Source: Petroleum Economist, Independents drawn to African opportunities.