The Star people's paper

05 March 2022

Of renewable energy, hydrogen and green mobility

IT was the time of the year again when national oil company Petroliam Nasional Bhd (Petronas) announced its annual performance. This year, Petronas' management team, helmed by its president and group chief executive officer Datuk Tengku Muhammad Taufik, conducted a long two-hour briefing session for the media to explain the group's ambitious plan to strike a balance between achieving net-zero emissions by 2050 while carrying on producing hydrocarbons.

Here are snippets from the press conference:

How do you see the consumption of gas in the near term? How will that impact Petronas as the world's fifth-largest exporter of liquefied natural gas (LNG)?

Tengku Taufik: Petronas' position has always been that natural gas is ideally positioned in the current energy transition environment.

Now, we need to look at what is going to happen beyond 2040 and 2050. We see that oil and gas (O&G) will still make up 40% of the world's energy mix. For now, we are seeing growth in demand for natural gas. We should continue with gas exploration, because gas offers a pathway to the net-zero future we are aiming for. Demand in the region and in Malaysia is expected to rise post-pandemic. In Malaysia, we will see an increase in gas consumption, especially from the power sector.

What is your oil price outlook for this year, especially with the geopolitical issues between Russia and Ukraine?

The current oil price of above US$100 (RM417.80) per barrel is a departure from where we believe fundamentals should be. I think many research houses would agree.

There has been under-investment and there will also be the systematic release of supplies from the Organization of the Petroleum Exporting Countries and its allies or Opec+. Fundamentally, the price of crude oil should be at the US$70 to US$80 (RM292 to RM334) per barrel range.

Petronas is very vigorous and disciplined with its spending. We apply scenario testing to our investments, to ensure that they can survive at lower prices, as low as US$40 to US$50 (RM167 to RM209) a barrel.

Petronas' capital expenditure (capex) in the financial year 2021 (FY21) only came in at RM30.5bil, which is lower than the RM40bil-RM50bil pre-pandemic level. Is Petronas going to accelerate its capex for this year?

In FY21, Petronas experienced some disruptions in operations due to the Covid-19 pandemic. We had to work in a very different way. It put a lot of strain on us and our contractors. Safety has always been our number one priority. There were also some transactions to support the upstream O&G we had wanted to take on.

However, the valuations became "distorted" because of the current market situation. Due to the combination of supply chain disruptions, Covid-19 impact and foregone mergers and acquisitions or M&As, that is why our capex fell behind.

Our capex allocation remains 50:30 for the domestic and international markets. We expect the first quarter (Q1) and Q2 this year to catch up on capex spending.

We must make sure the gas molecules come through, and we are committed to upholding safe operations of our fields. It is a very delicate balance.

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Can you elaborate on the pick-up in capex? Petronas also plans to boost the local O&G sector and invest further in new energy sectors. How are you going to strike this balance?

For this year, we hope to come back to the usual RM40bil to RM50bil range for capex. The board has authorised some of that capex to be ring fenced for decarbonising activities and projects.

Remember that decarbonising is not an entirely new energy space. It also means working with the O&G services and equipment (OGSE) players to clean up our operations – creating less emissions.

As we move forward into this clean energy space, there will be an independent vehicle, a clean energy solution unit, that acts like a venture capital or private equity firm. It will take strategic decisions to nurture this nascent area – renewable energy, hydrogen and green mobility – to provide a clean energy solution for the future. We have to plant the foundation now, because if we don't we risk being left behind. We are looking to move into blue and green hydrogen soon.

We need to be very careful around technology bets that we make. As we look into renewables, the position that we took in M+ (Petronas' solar power subsidiary) has already reached 1GW.

We may have 3GW, a humble ambition in the near term. But nothing will stop us from building up to something like a 30GW-40GW portfolio. We are evaluating the market.

Will there be further M&As in the clean energy space?

We do not exclude the possibility of inorganic growth. Taking the bets early means that we learn the technology first, and become strategic shareholders over time.

Now that you have a standalone gas unit, will we see more investments in gas development?

When it comes to upstream, Petronas' portfolio is about 70% gas and 30% oil. Malaysia is blessed with many gas resources. There is increasing demand to move away from coal in the energy sector.

Tenaga Nasional Bhd is taking a position where coal will end at some point. So we need to anticipate the step up in gas. This has been done in a viable, equitable and market-based environment. Because the more difficult the gas is, the more costly it is to bring it out.

Can you elaborate on Petronas' collaboration across its value chain with the states of Sabah and Sarawak?

Collaborations with Sabah and Sarawak are covered in two agreements. With Sabah, we have entered into a commercial collaboration agreement, which is for us to participate downstream by providing gas and also embarking on a nearshore LNG project. As we develop and undertake these projects in Sabah, they also want us to allow local participation and capability building.

With Sarawak, we have a commercial settlement agreement (CSA). We are now seeing ourselves collaborating closely with Petros (the state vehicle of Sarawak), which is also taking positions upstream. What we are doing with Sabah and Sarawak is to ensure that the pie is enlarged, and everybody gets an equitable share, for a win-win for all.

Petronas renegotiated some contracts with service providers during the previous downturn in oil prices.

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With the spike in crude oil prices now, will the contractors and vendors look for renegotiations?

During the last crisis in 2014-2015, the crash came very quickly, which is why now we have to act with caution.

Petronas has signalled that you need scale and expertise to weather a downturn in a very cyclical business and the cycle is getting shorter.

In terms of rate renegotiation, as the world comes back to recovery and as demand for energy also grows, the need for services is expected to follow. We will continue to respect the commercial availability of assets, people and pay at market rates. We want to be responsible for partnering with the OGSE sector.

We don't plan any rate negotiation as we don't see how this market will pan out.

Will local OGSE players do well as Petronas, moving forward?

It is how they (OGSE players) manage their capital and cost efficiency. Some may have over leverages. Some of those may have the ability to restructure as the market recovers. Unfortunately, there is also a single job mentality among some OGSE players, who expect one-hit contracts with players like Petronas. This should not be the case.

Petronas remains a responsible partner. We want to be a catalyst for the OGSE sector. We are mapping out our transition in our activity outlook. We already hinted which areas they need to address and the new space that we are going to explore.

For FY21, Petronas is disbursing RM25bil dividend to the government. For this year, could we see a higher dividend payout on the back of higher crude oil prices?

We are only two months into the year. We don't know if the price can sustain. Once we survive the obligation of meeting our financial commitments, servicing our debt, fulfilling our growth needs and having a buffer for liquidity, and if Petronas can afford it, the government will ask and the board will deliberate on it.

The new entity will focus on renewable energy, hydrogen and also green mobility. Why hydrogen? Do you expect there will be more demand for hydrogen as currently not many countries are using hydrogen as their main source of energy?

The O&G industry is naturally positioned to take hydrogen because the chemistry that we can do has already helped us produce blue hydrogen. Hydrogen is an energy carrier and it will be envisaged as part of the ecosystem where you will then have no emissions.

The trick right now is how to transport it. That is why you say it's difficult to see how hydrogen is going to be so widespread.

In fact, the customers for hydrogen are typically the same players that will consume LNG. Because we are in the LNG space, there is a pathway.

One of Petronas' new focus is green mobility. What is Petronas planning to do in this field?

Our immediate target is to work with OEMs and technology providers to get a decent number of between 20 and 30 charging stations set up this year. In the longer term, we see a proliferation of higher and faster charging stations deployed across Malaysia. We believe what will really unblock green mobility in Asia is the proliferation of infrastructure.