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Lower Oil Prices Could Put Asia-Pacific Oil And Gas Companies In A Spot

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SINGAPORE (Standard & Poor's) Oct. 28, 2015--Asia-Pacific oil and gas companies may be called to take tough decisions if the fall in oil prices is prolonged. That's according to a report, titled "Another Decline In Oil Prices Could Have Asia-Pacific Oil And Gas Companies Over A Barrel," that Standard & Poor's Ratings Services published today.

"The ratings on 40% of the oil and gas companies we rate in Asia-Pacific and 60% of the stand-alone credit profiles will face downward pressure if oil prices fall 10% below US$50 per barrel without any signs of recovery," said Standard & Poor's credit analyst Mehul Sukkawala. "Overall, the ratings on Chinese state-owned enterprises and Australian companies are the most vulnerable, while the stand-alone credit profiles of the government-owned companies in countries such as Indonesia and Korea are at the greatest risk."

Oil and gas companies in Asia-Pacific are still better off than those in other regions where the energy sector has been a significant contributor to higher default rates. This is mainly because the Asia-Pacific energy companies that Standard & Poor's rates are generally large, have good financial positions

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despite the low oil prices, and benefit from close strategic relationships with their respective sovereigns.

Standard & Poor's current Brent crude oil price assumptions build in a gradual improvement. We forecast oil prices at US$55 in 2016, US$65 in 2017, and US$70 in 2018 and beyond.

"If the oil price outlook worsens, Asia-Pacific oil and gas companies will need to reassess projects, weigh returns, prioritize investments, and review shareholder distributions," said Mr. Sukkawala. "Defending creditworthiness in a tough environment will call for some difficult decision-making, particularly at the government-owned companies that dominate the sector."

The leverage of Asia-Pacific oil and gas companies is significantly higher than envisaged 12 months ago. Ongoing capital expenditure amid declining profitability has weakened the average debt-to-EBITDA ratio. Our EBITDA expectation has fallen more than 40% for 2015 compared to when oil was over US$100 per barrel, whereas capital expenditure has fallen by only about 15%. Government ownership of many energy companies in Asia-Pacific is largely responsible for the less-than-warranted cut in capital spending.

Oil prices and capital expenditure will continue to determine the cash flows and leverage of energy companies in Asia-Pacific. At the same time, other factors such as shareholder distributions, acquisitions, and equity raising also have some influence on leverage and more importantly on the level of cash flow deficit.

RELATED CRITERIA AND RESEARCH

Related Research

- Standard & Poor's Revises Its Crude Oil And Natural Gas Price Assumptions, Sept. 24, 2015

The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com. Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.