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Oil & Gas

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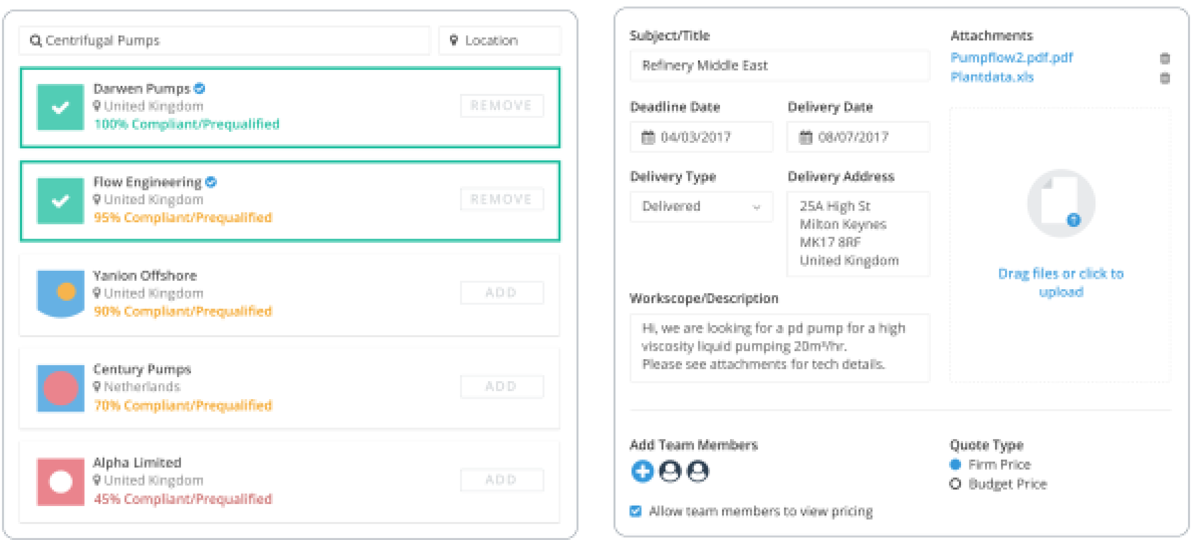
Uncompetitive procurement processes in the international oil industry are likely to improve materially, as further cost-reforms are necessitated. This was a conclusion of our recent note, 'The Ubers and AirBnBs of Oil Services', and reinforced by meeting the tech start-up **DeepStream** last week: a digital procurement platform, similar to RigUp, but focussed internationally...

The rationale for the platform is to improve oil industry procurement, raising competitiveness and lowering cost. Deepstream's founders have first-hand experience with operators' slow, bureaucratic procurement processes offshore, which deter competitive bidding. Once suppliers have cleared the hurdles to qualifying as 'approved suppliers', it is routine to raise prices. In one case, a large service co was able to mark up a processing-unit's cost by 3.5x between buying it and re-selling it to a Major! And this is despite Majors devoting 10% of their head counts to procurement personnel, which is c100x the level in other industries.

Deepstream's solution is a digital procurement platform, which will launch within months to connect c3,700 suppliers and buyers (mostly based around the North Sea so far). Bidding is harmonised on the platform (charts below), rather than the archaic system of written RFQs and EOIs. Suppliers are ranked according to their documentation and reviews from other customers.

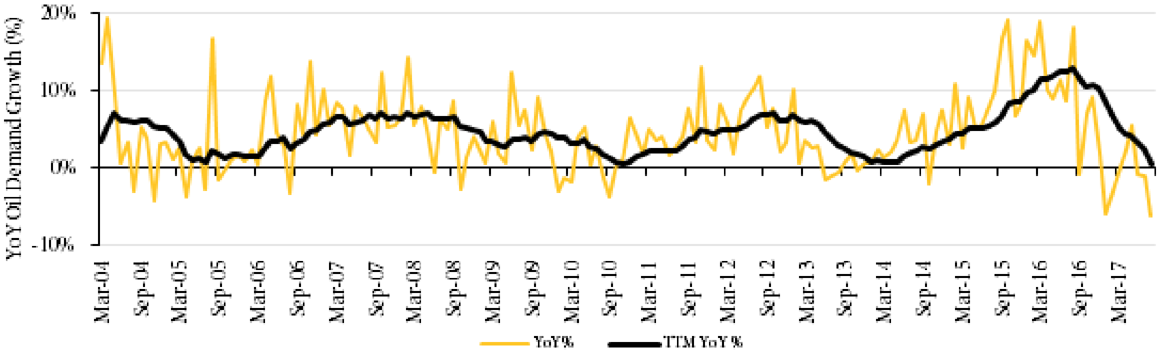
DeepStream platform for finding suppliers (left) and answering RFQs (right).



BP stood out, from our discussion with DeepStream, as a Major that is reforming. DeepStream engaged a number of BP staff in developing the platform over the past 6-12 months, and management have shown support and a growing focus on digitalisation and process enhancement. This further raises our conviction that this Super-Major is adapting its cost structure to preserve equity value, even against a challenging, deflationary industry backdrop.

Commodity & Macro News

- **OPEC said to consider extending cuts by 6 months. (Bloomberg).** OPEC and its allies are discussing extending existing production cuts by up to 6 months beyond their current March 2018 expiry. A 3 month extension is now said to be seen as a minimum. The next formal OPEC meeting is scheduled for November 30 in Vienna.
- **Indian oil product demand falls 6% YoY in August due to heavy rainfall. (PPAC).** Indian oil product demand fell 6% YoY to 15.7MT (3.7Mbpd) in August as heavy rainfall reduced the use of diesel for irrigation pumps and curbed demand for traffic fuels. August was the third straight month of demand decline (chart below).



- **API data shows US crude inventories rose by +6.2Mbbls last week. (API).** API data shows that US crude inventories rose by +6.2Mbbls last week. Distillate stocks drew by -1.8Mbbls and gasoline inventories fell by -7.9Mbbls. The US EIA will report official stockpile numbers this afternoon.
- **EIA lowers 2018 US crude output forecast to 9.84Mbpd. (EIA).** The EIA has lowered its 2018 US crude output forecast to 9.84Mbpd (+0.59Mbpd YoY) from 9.91Mbpd, partly reflecting the impact of Hurricane Harvey and lower drilling activity. The agency left its 2018 WTI price forecast unchanged at $49.58/bbl.

Company News

- **Shell seeks exit from Iraq's Majnoon oilfield. (Reuters).** Shell is reportedly seeking to sell its 45% stake in Iraq's 235kbpd Majnoon oilfield with the oil ministry having started preparations to finalise its exit. Shell operates the field under a technical service contract set to expire in 2030.
- **Neste to supply renewable aviation fuel to Geneva Airport. (Company Release).** Neste is to supply renewable jet fuel to Geneva Airport which has set a

target that at least 1% of jet fuel consumption will be renewable by late-2018. The agreement is further proof of concept and will contribute towards Neste's target that 20% of renewable volumes will be from outside road traffic fuels by 2020.

- **Investors ask Chevron to calm Myanmar-Rohingya tensions. (Upstream).** Chevron has been urged by an investor group to engage Myanmar's government to quell violence against the minority 1.1M ethnic Rohingya people in the country. 400 were recently killed in a government crackdown, prompting tens of thousands to flee across the border to Bangladesh. Chevron operators the A-5 offshore block and is a partner in TOTAL's Yadana gas field.
- **Seadrill enters bankruptcy protection. (Bloomberg).** Seadrill has filed for bankruptcy protection after agreeing a deal with senior lenders to inject $1bn of capital. Under the proposal lenders will extend the maturity on $5.7bn of debt, with no amortization payments due until 2020. Lower ranking credit holders will have the option to convert $2.3bn in unsecured bonds into a 15% stake in the company. Holders of common shares receive 2% of post-restructured equity.

Project News

- **Upstream updates on Brazilian pre-salt FPSO schedule. (Upstream).** COOEC has rescheduled delivery of the 150kbpd P67 FPSO, from late-2017 to early-2018 after late arrival of equipment and modified specifications from Petrobras. P70 has been completed and will arrive in Brazil in October and will take c4-months for integration and hook-up. CIMC Raffles is the favourite to win three further FPSO hull contracts for the pre-salt Santos basin, P71-73, the last of the 8 x 150kbpd replicants, which will be installed in the Iara area. Heterogeneous reservoirs are proving a challenge in the Sururu sub-area.

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