



Review of the Petroleum Industry Act, 2021: Opportunities for the Capital Market

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Background to PIA



Background

“Nigeria lost estimated \$50 billion worth of investments in 10 years due to stagnation, uncertainty over the petroleum industry”- President Buhari

US Energy Information Administration estimated that Nigeria lost up to US\$15bn annually from its delay in passing the PIA



PIA is a win!!!

Background- Global and Local Trends

Pivot to Renewable Energy Sources

'Net Zero' emissions target by 2050.

Global Energy Shortage

Spike in crude oil price and retail energy prices.



Lower Investment in Oil & Gas Exploration

- Activists & investors putting pressure on IOCs to curb investments.
- International Energy Agency says to reach 'net zero' emissions by 2050, no need for new investments in oil and gas after 2021
 - Investment in fossil fuels has slumped by 40% since 2015

IOC's 'Voluntary' Shrinking

- Global investment in oil has fallen from \$800b in 2014 to about \$400b last month, upstream investment shrunk from \$30b in 2014 to \$8b, and reducing oil production by 1%-2% annually till 2030
- **Example:** Shell sold its prized Permian basin assets to ConocoPhillips for \$9.5b

Systemic Dysfunction in Global Energy Markets

- Mismatch between energy supply and demand
- Since May 2021, the price of a 'basket of oil, coal and gas' has soared by 95% before winter when prices normally surge

Gap being filled by National Oil Companies

- Mainly state-owned companies and some privately-held firms are investing significantly in exploration
 - Eg. Saudi Aramco and Abu Dhabi National Oil Company ('ADNOC')

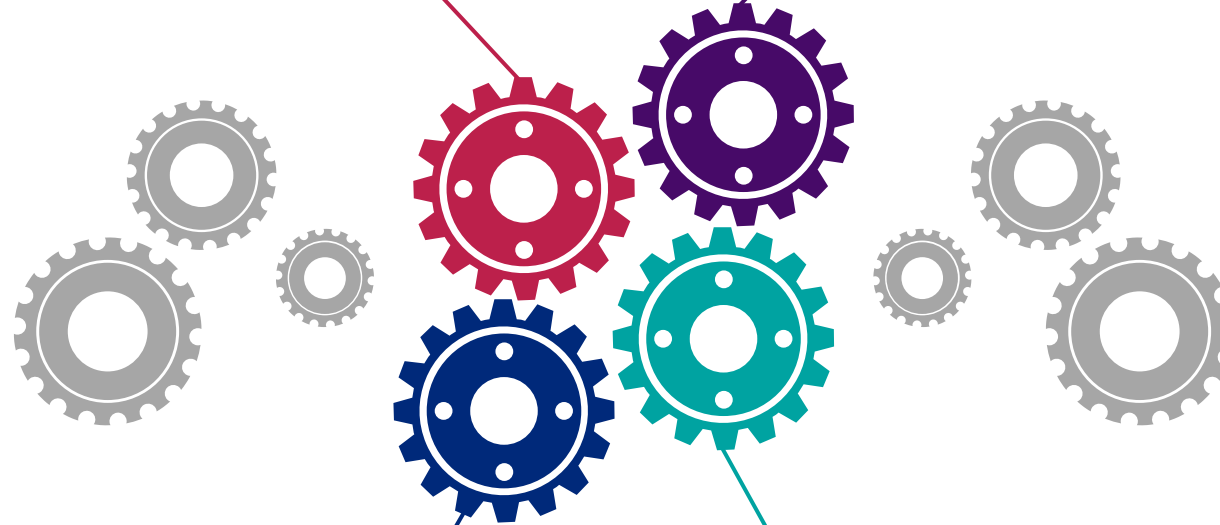
Locally, Nigeria On-shore and Shallow Water Divestments

Shell, NAOC, Mobil are divesting from their onshore and shallow water Nigerian assets

Background- Why the PIA now?

**Uncertainty in demand
due to the myriad of
challenges facing the
industry**

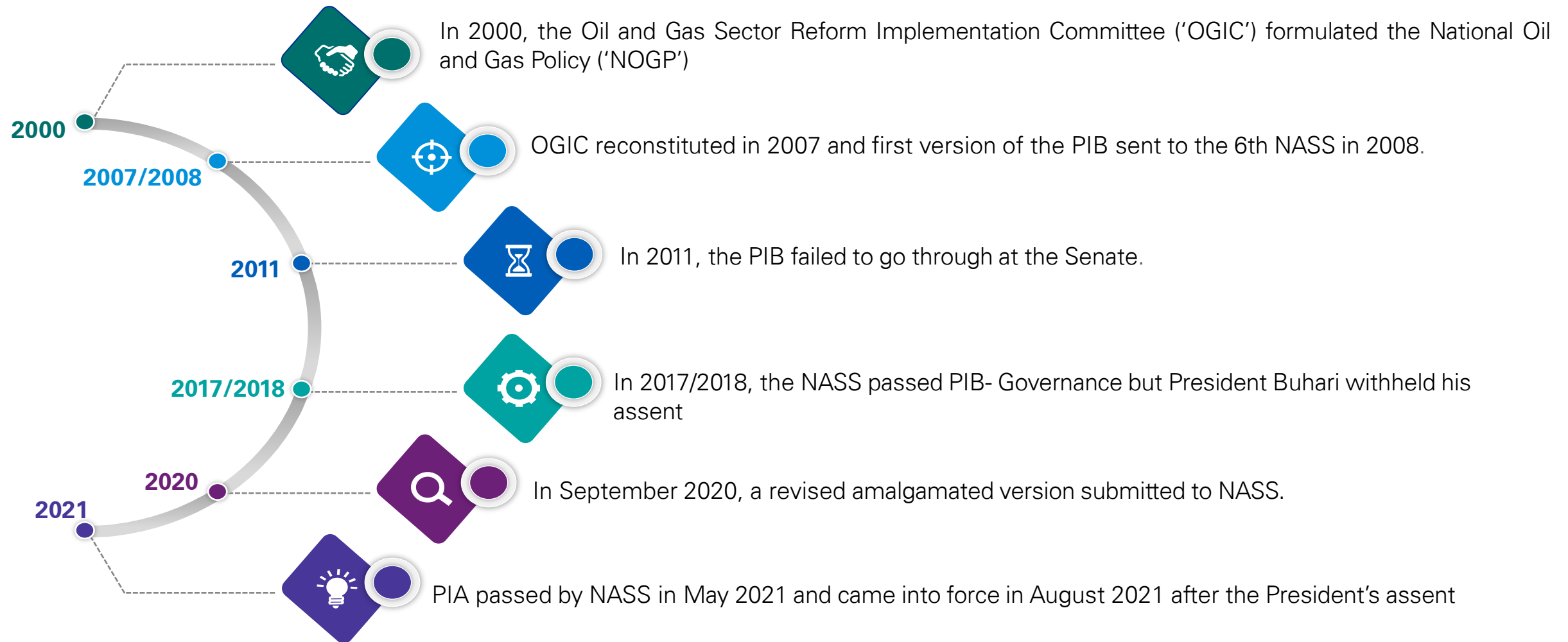
**Limited open acreages
because of little or no
relinquishment**



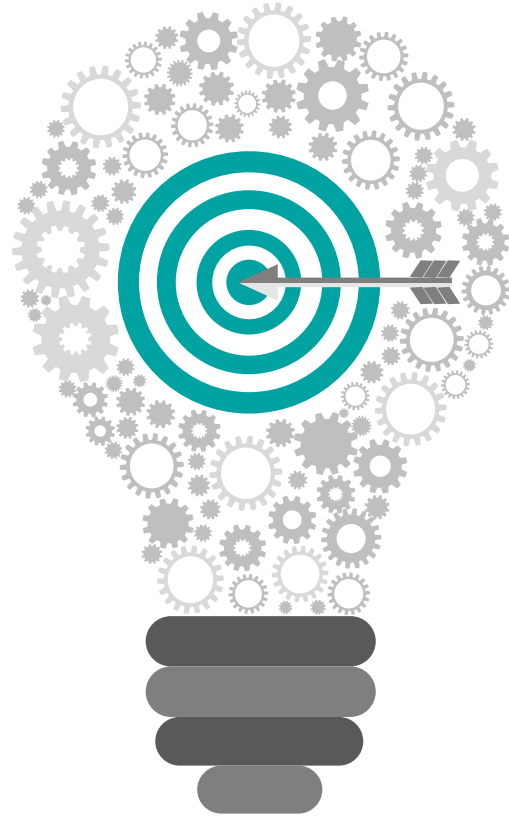
**Need to implement a
competitive fiscal
regime**

**Need to attract
investment into the
Nigerian Oil and Gas
Industry**

Background - The PIA Journey



Background- The PIA Journey (cont'd)



Reasons for delay in passage of PIA

- Lack of ownership
- Inability of the National Assembly to conclude deliberations on the draft Bills
- Misalignment of interests of the relevant stakeholders
- Ministerial powers
- Attempts to enact an Omnibus Bill



Overview of PIA

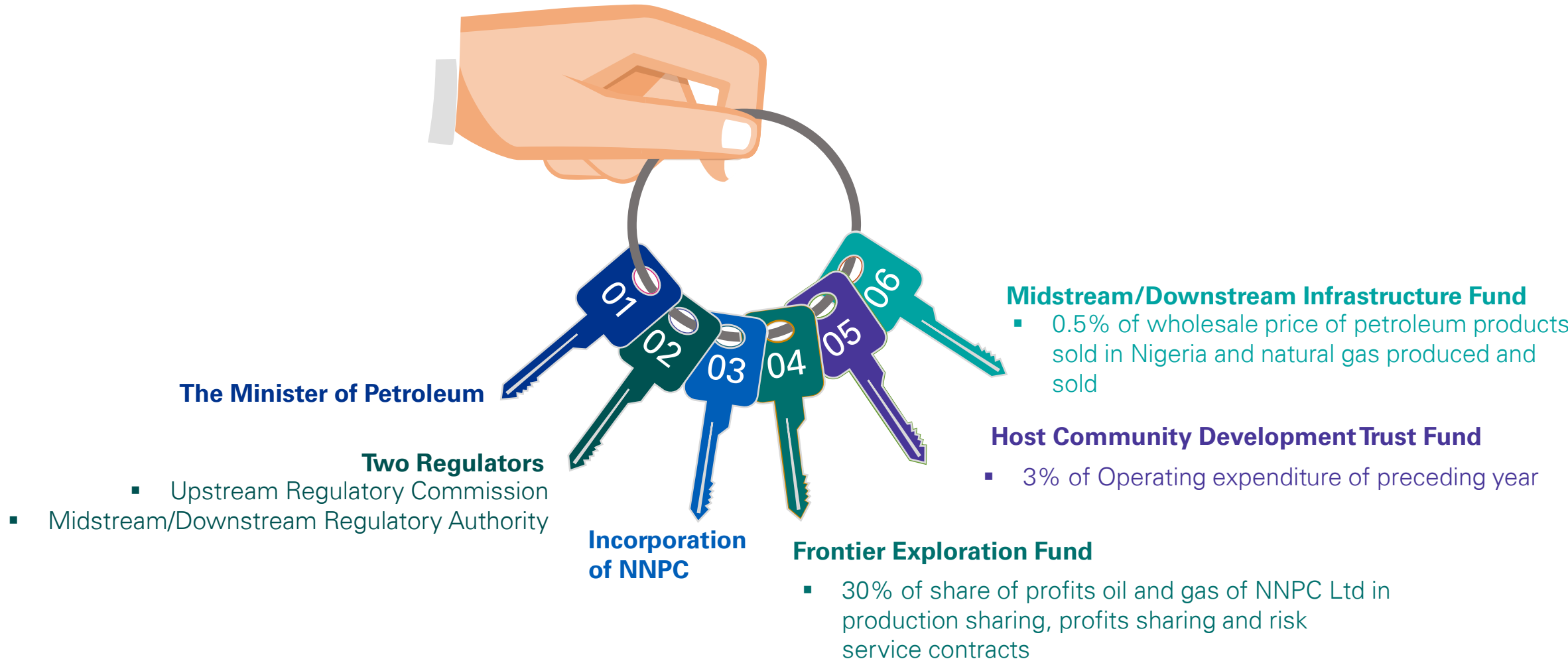


Key Objectives

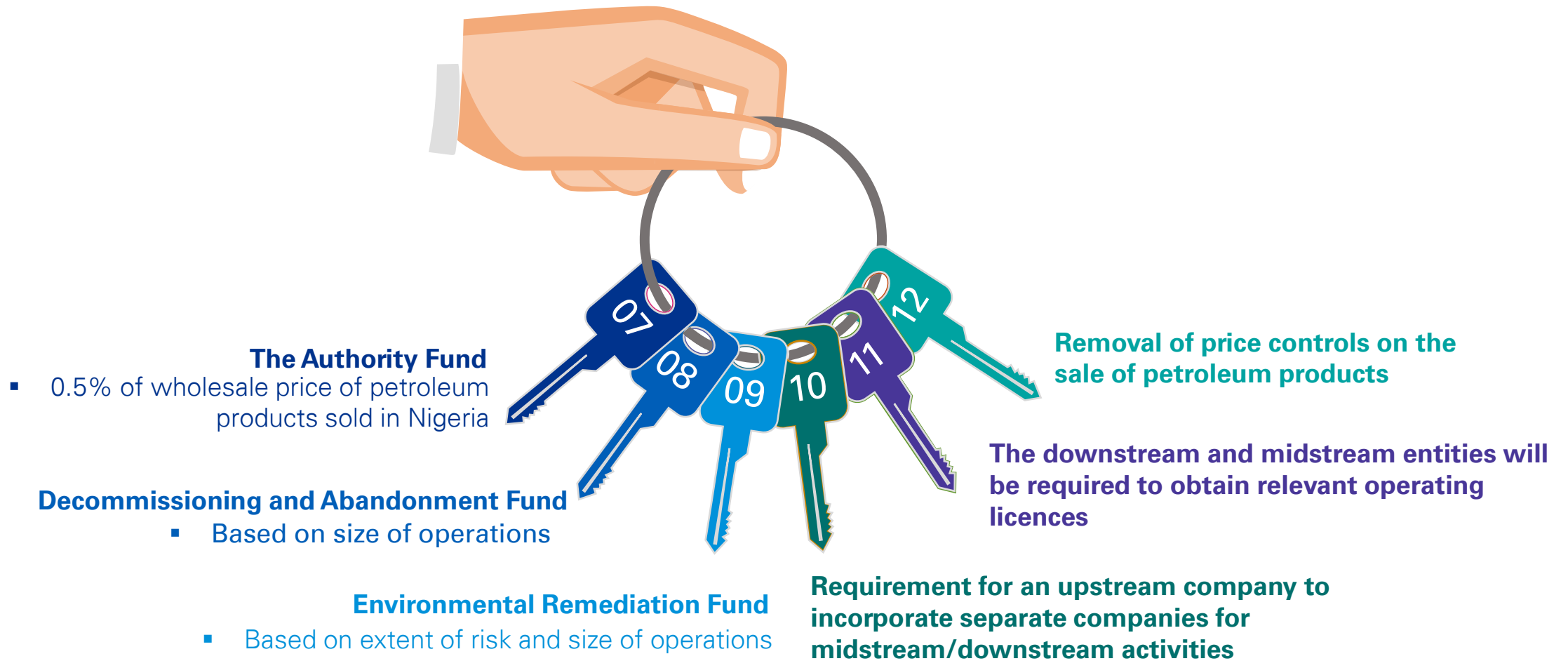
- 01 Create efficient and effective governing institutions with clear and separate roles for the petroleum industry
- 02 Establish a framework for the creation of a commercially-oriented and profit-driven national petroleum company
- 03 Promote transparency, good governance and accountability in the administration of petroleum resources of Nigeria
- 04 Foster a business environment conducive for petroleum operations
- 05 Deepen local content practice in Nigerian oil and gas industry.



Key Provisions



Key Provisions (cont'd)



Key Provisions (cont'd)

13 | Dual tax structure for upstream oil operators – Hydrocarbon Tax (HT) and Companies Income Tax (CIT).

14 | HT applies to crude oil, condensates and natural gas liquids from Associated Gas (AG) from upstream operations at 30% and 15% to PML and PPL, respectively.



15 | Costs allowable for HT (i.e., capital allowances and operating costs) can only be claimed up to a cost-price limit of 65%.

16 | CIT will be applied as an entity-based tax, thereby allowing for consolidation of results across terrains. So, there are no field- by- field restrictions.

Implementation of PIA

1. PIA Implementation Committee

- Inaugurated on 18 August 2021 and tasked with overseeing the implementation of changes introduced by PIA

2. Incorporation of NNPC Ltd

- To be owned 50% by the Ministry of Finance Incorporated, and 50% by the Ministry of Petroleum Incorporated

3. Fiscal Terms

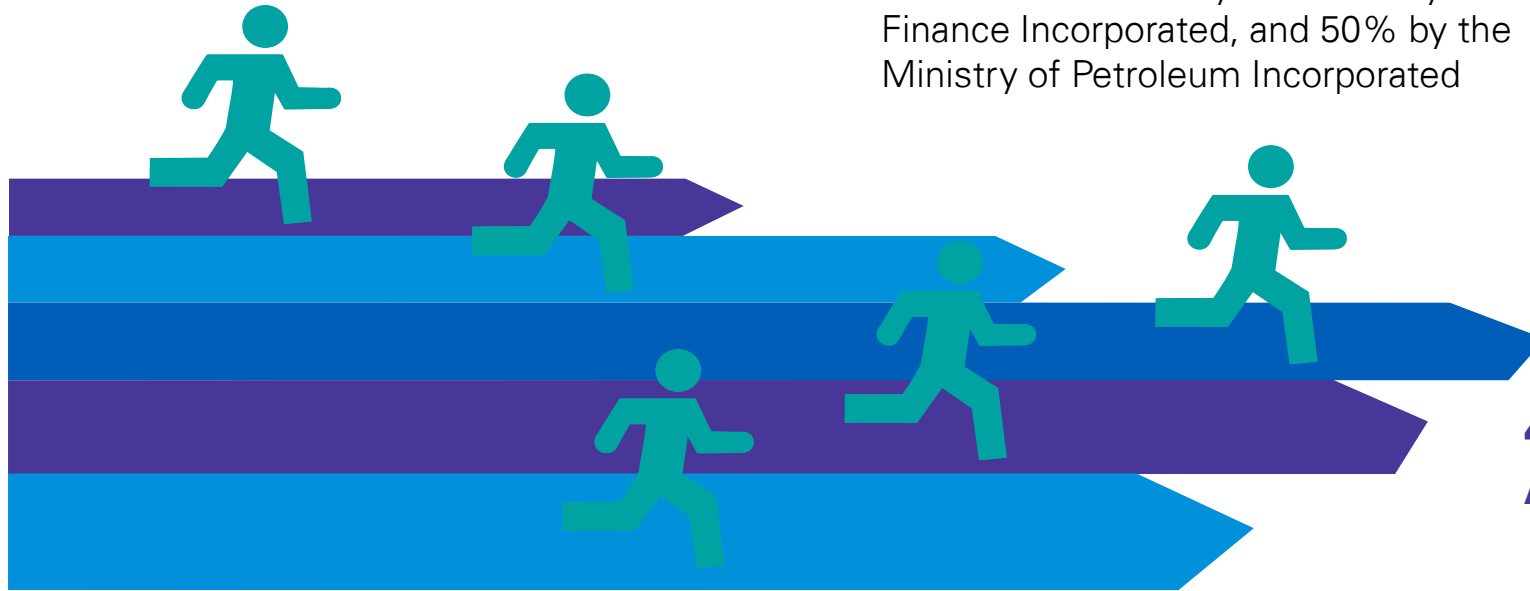
- FIRS working on Regulations to operationalize the HT.

4. Governance and Administration

- The Regulators have been inaugurated. DPR, PPRA and PET scrapped

5. Operationalizing the PIA

- Regulators working on the various regulations required to ensure smooth and seamless implementation of the PIA provisions

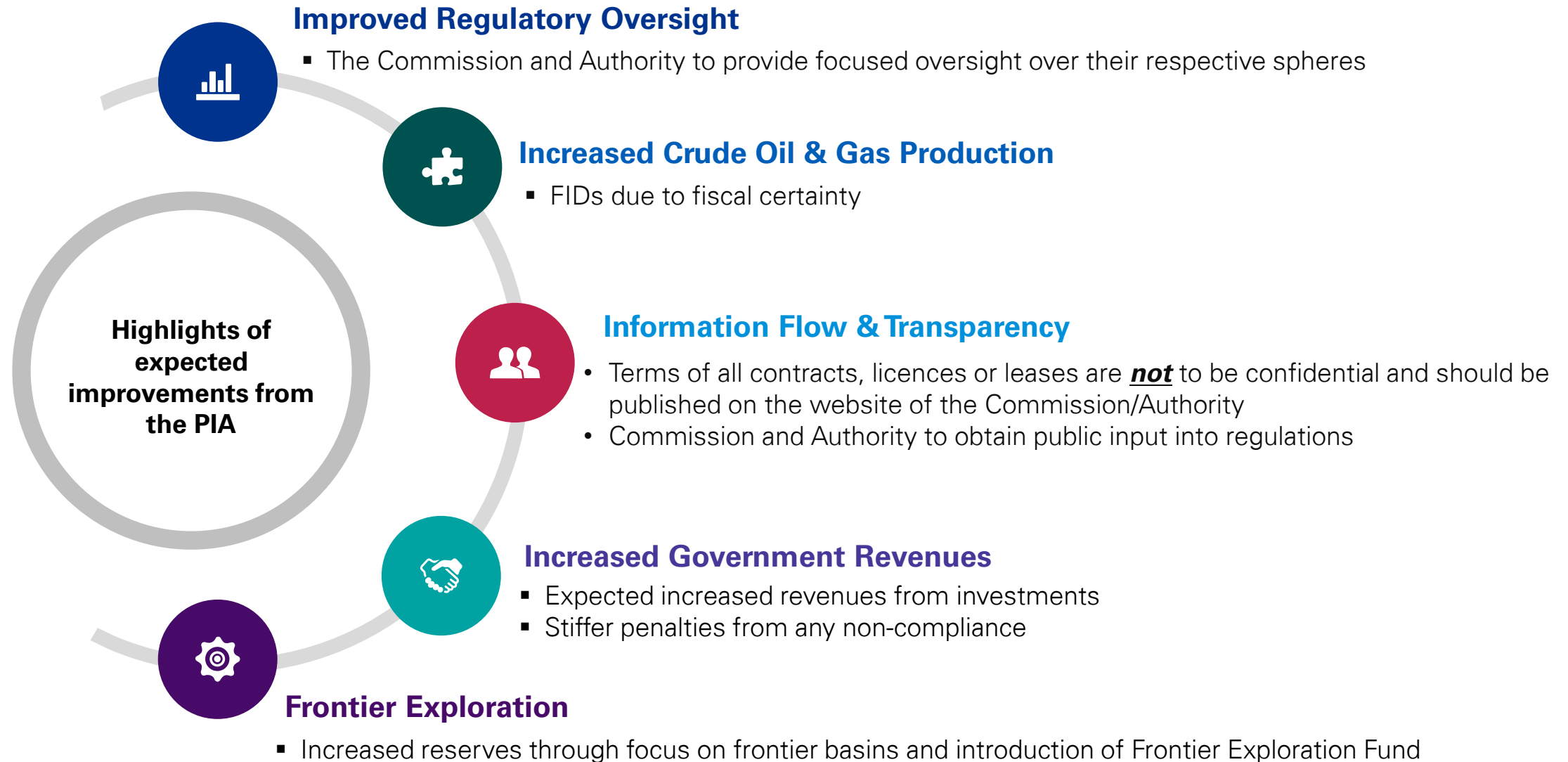




Expected Impact of PIA



Expected Impact of the PIA



Expected Impact of the PIA (cont'd)



FDI inflows and boost to Nigeria's FX reserves

Foreign Direct Investments

- Limited expectation of FDI inflow from IOCs and traditional conglomerates that raise funds from the public in the West
- Majority of investment may come from private institutional investor backed entities, and national oil companies seeking to diversify abroad
- Indigenous investors and local players expected to play increased role by acquiring onshore assets of IOCs, etc

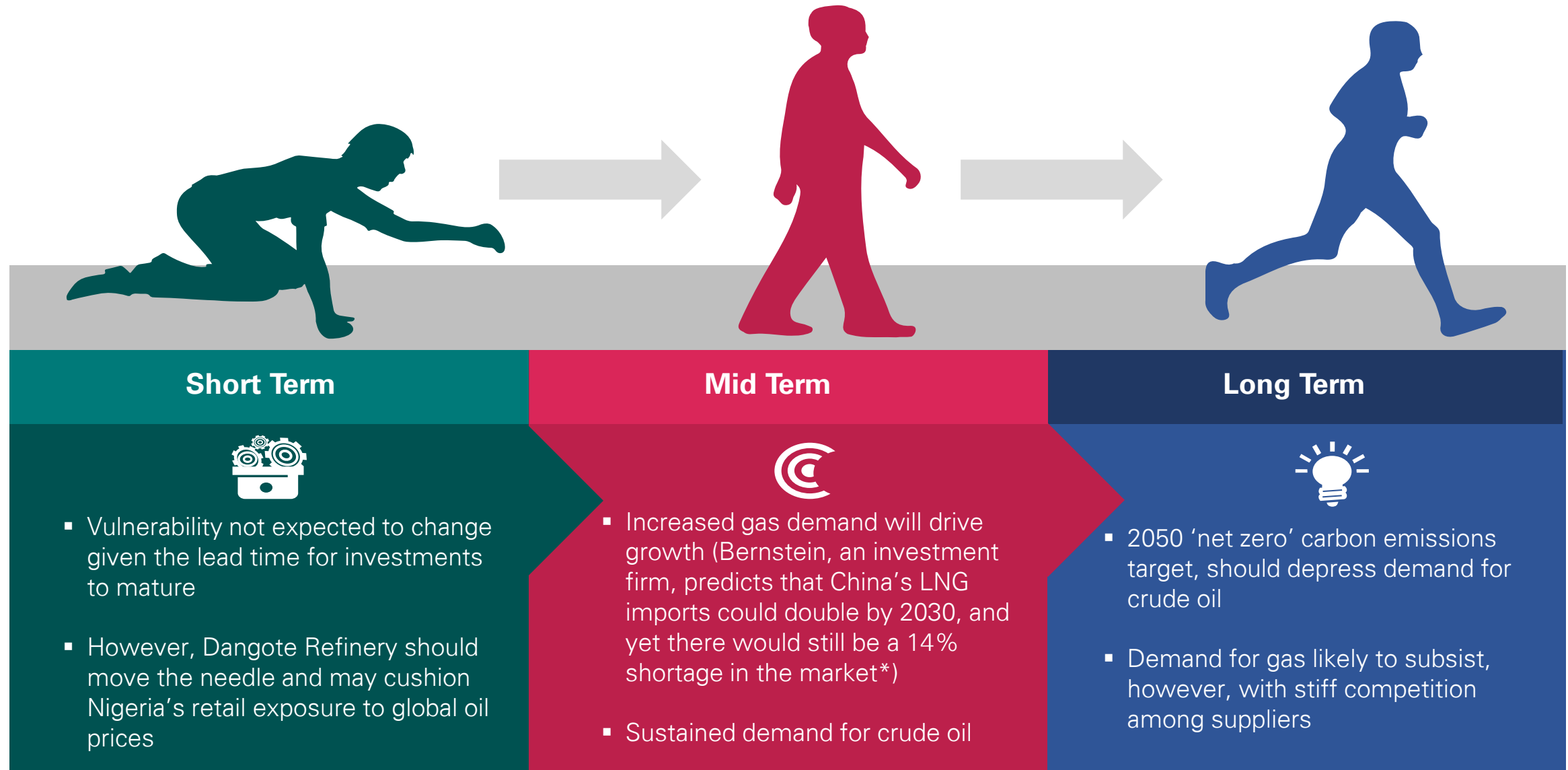


Boost to FX Reserves

- Should arise mid-long term as investments increase, and as the Dangote Refinery comes on-stream



Nigeria's vulnerability to shocks in global oil markets



Downside risk to Nigeria's oil industry from global focus on renewables

Limited Investment

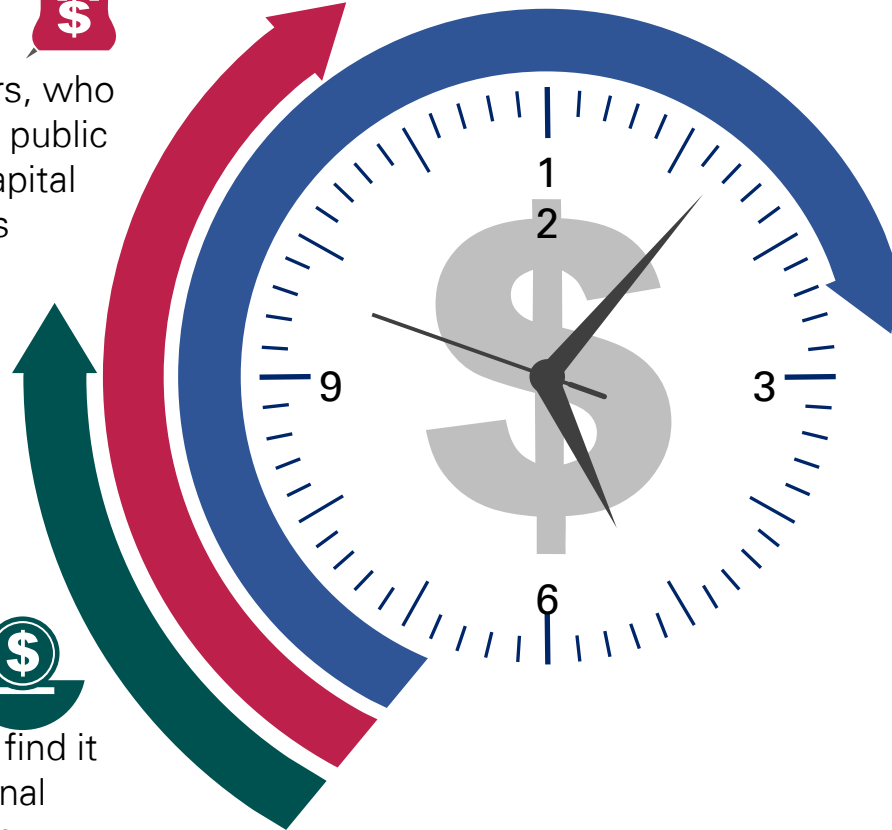


- IOCs and other players, who raise money from the public markets, have hard capital rationing programmes

Access to Financial Markets



- Indigenous players and investors may find it increasingly difficult to raise international funds through Eurobonds and GDRs to invest in oil & gas.



Access to Export Markets



- Oil prices likely to stay high until Western Governments figure out how to balance the transition away from carbon-rich energy sources
- Afterwards, competition for export markets for oil and gas products will become increasingly stiffer



Opportunities for the Capital Market



Performance of oil & gas sector

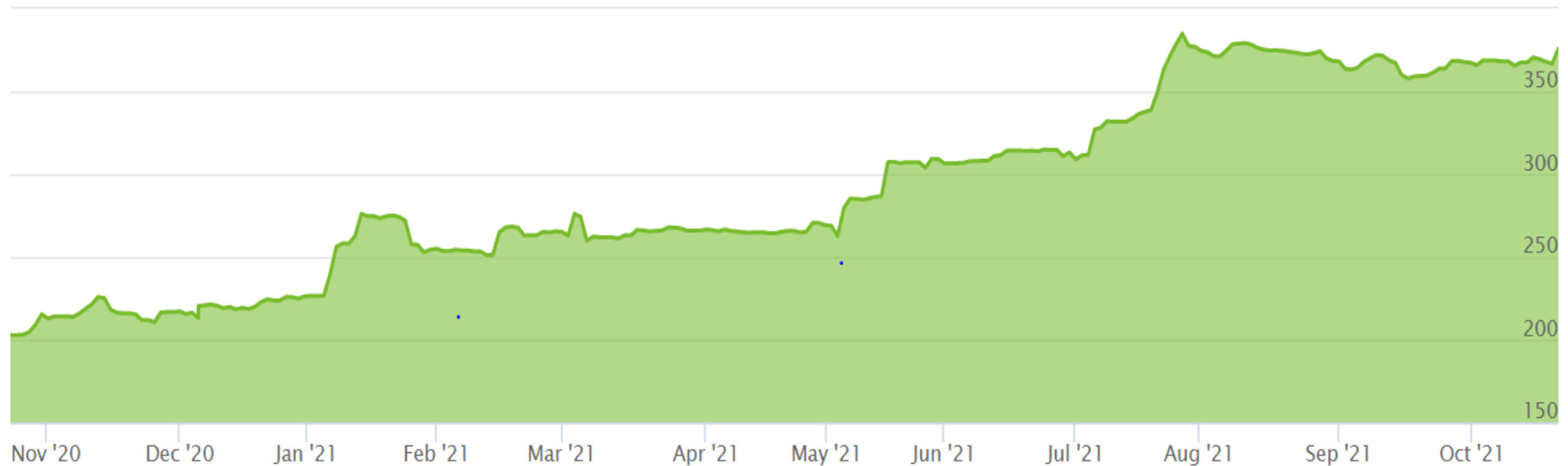
- This chart is the NGX Oil & Gas Index for Nov 2020 – Oct 2021

375.71 ▲ 2.48% 22 Oct 21

All Share Index

Zoom 1m 3m 6m YTD 1y All

Oct 22, 2020 → Oct 22, 2021



- PIA seems to have already spurred hope since May 2021 when it was passed by NASS
- There was also a slight spike in August 2021 when the PIB was assented to

Need for securities issuance by players in the oil & gas industry

- Players seeking to optimize gains from deregulation likely to seek to issue securities - equities and fixed income instruments



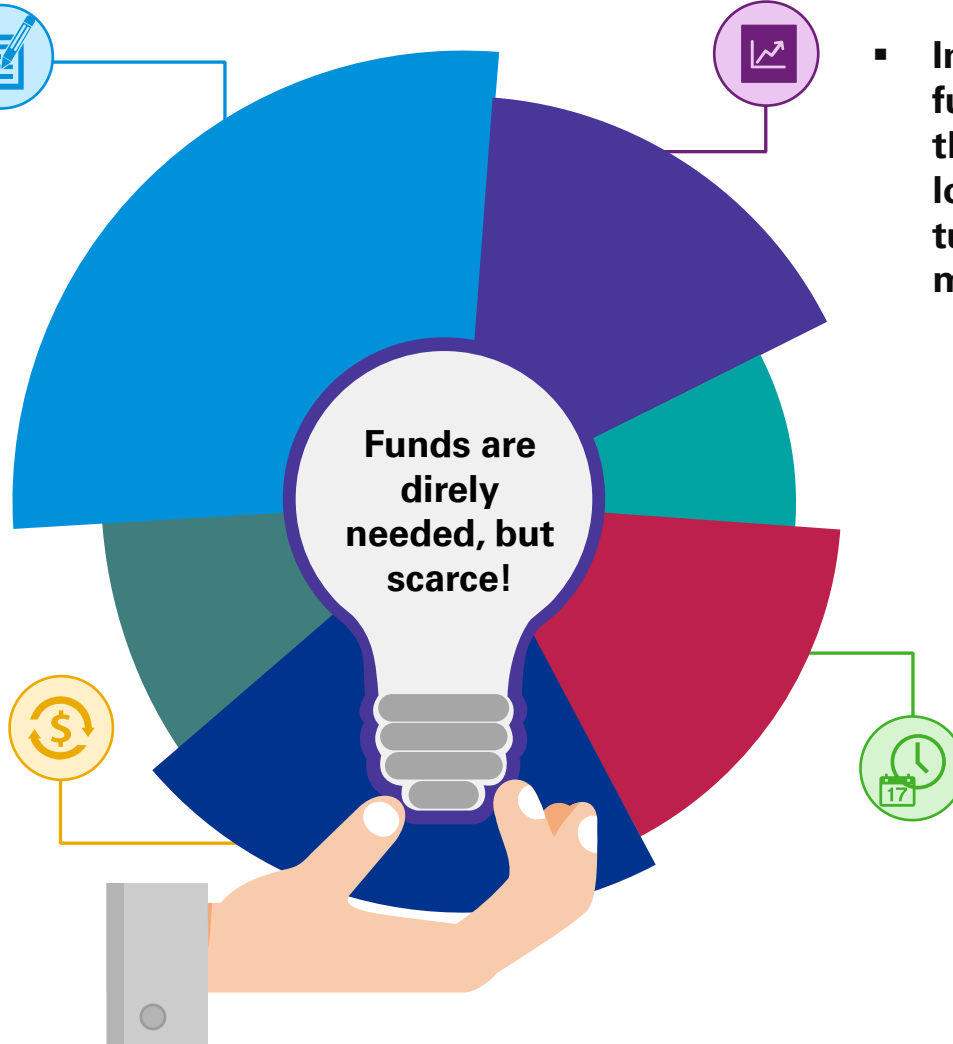
- Increasingly more difficult to raise funds for petroleum investment in the mature markets. Local players looking to expand portfolio likely to turn to primary and secondary markets



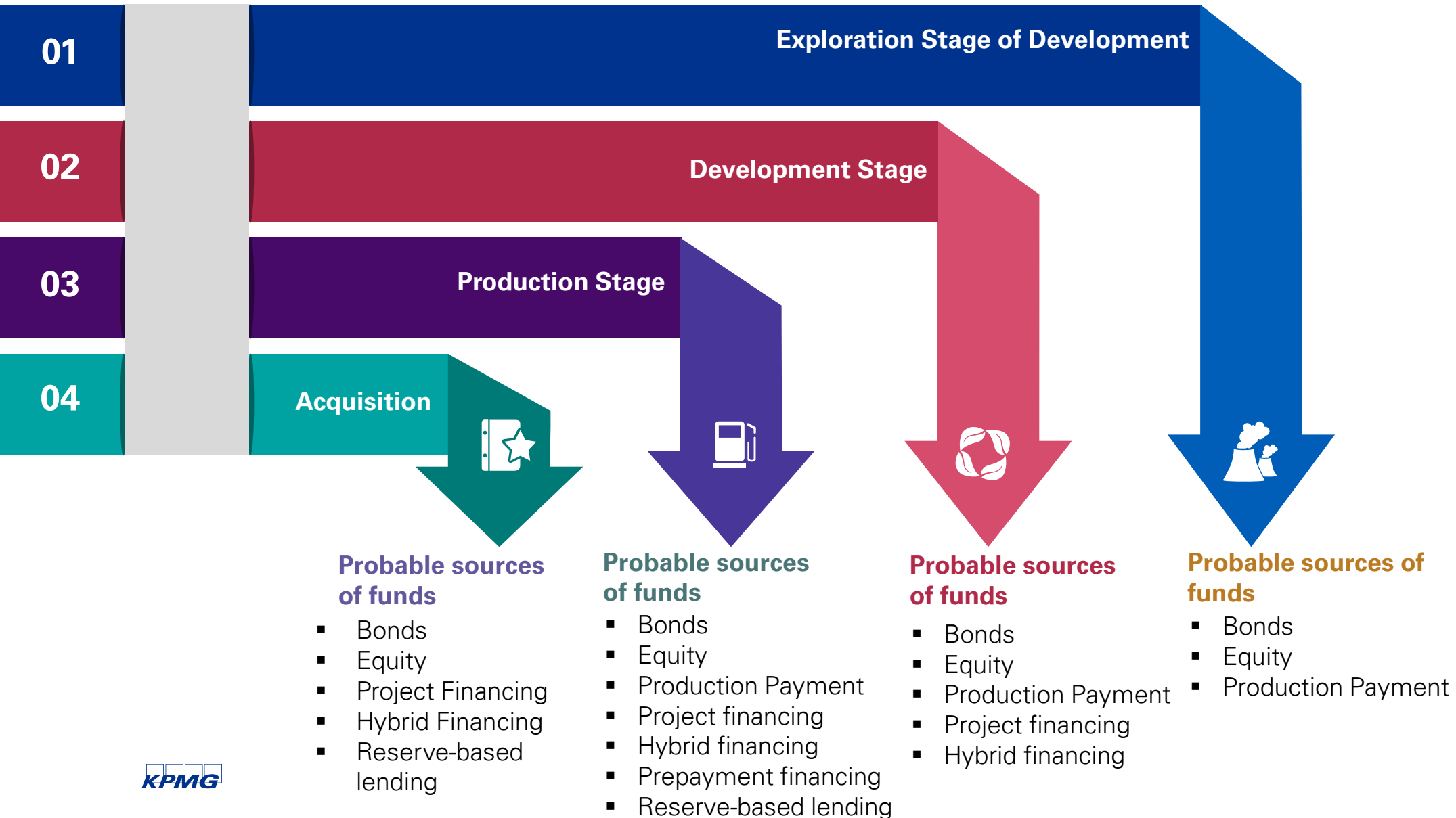
- NNPC Ltd may become publicly listed in mid to long term



- On-going divestment of IOCs from on-shore and shallow water assets likely to drive local acquirers to the market



Key drivers in determining sources of capital



An aerial night view of a city skyline, likely San Francisco, featuring prominent skyscrapers like the Transamerica Pyramid and the Salesforce Tower. The city is illuminated with warm lights, and the sky shows a gradient from orange to blue. A large white circular overlay is positioned on the right side of the image, containing the text "Thank You" in a bold, white, sans-serif font.

Thank
You