

Pemex total success –Trion farmout and Round 1.4

- **The *National Hydrocarbon Commission* (CNH) announced the winners of the third tender under Round 1.4**
- **8 out of the 10 deep-sea blocks tendered were allocated, significantly above government’s expectation (~40%)**
- **Moreover, the *Trion* farmout was also allocated to the Australian BHP Billiton and represents the largest public-private partnership since 1938**
- **In our opinion, the fields tendered were more attractive, compared to other fields despite the higher investment needs**
- **The first allotment of projects under Round 2 will take place in March 22, 2017. This round will include 15 shallow water fields in the Southeast Basins, Tampico, Misantla and Veracruz**
- **Regarding price dynamics, oil has registered a significant recovery since the lows seen at the beginning of the year**

Round 1.4. The *National Hydrocarbon Commission* (CNH) announced the winners of the fourth tender under the so-called Round 1 (a.k.a. Round 1.4). We highlight that this round represents the fourth effort by the government to allow private-sector investments into full-blown oil-related projects. Fifteen bidders came forth, from which 12 took part in the final process and 7 won a contract. This package of projects included 10 production blocks in offshore deep-sea fields, which covered a total area of 23,835 km². Four are located in the shores of Tamaulipas in an area known as “*Perdido Belt*”, near the “*Great White*” area under U.S. territory. The other six areas are located in the southern part of the gulf, in the coasts of Veracruz and Tabasco, area known as “*Salina Basin*” (as shown in the map below). According to the Ministry of Energy, these zones contain hydrocarbons such as humid gas, oil and gas.

Moreover, the *Trion* farm-out, which is owned by Pemex, was allocated to BHP Billiton, for 4% additional royalties (on top of the 7.5% forced royalties). The territory span is 1,258 km² (496 mi²), which will be exploited 60% by BHP and 40% by Pemex. José Antonio González Anaya, Pemex CEO mentioned that the territory has 485 million barrels of 3P reserves (probable reserves of oil and gas). The other bidder, British Petroleum (BP), offered the same amount of royalties, but the amount of cash tendered was higher from BHP Billiton (USD 624 million vs. USD 605 million).

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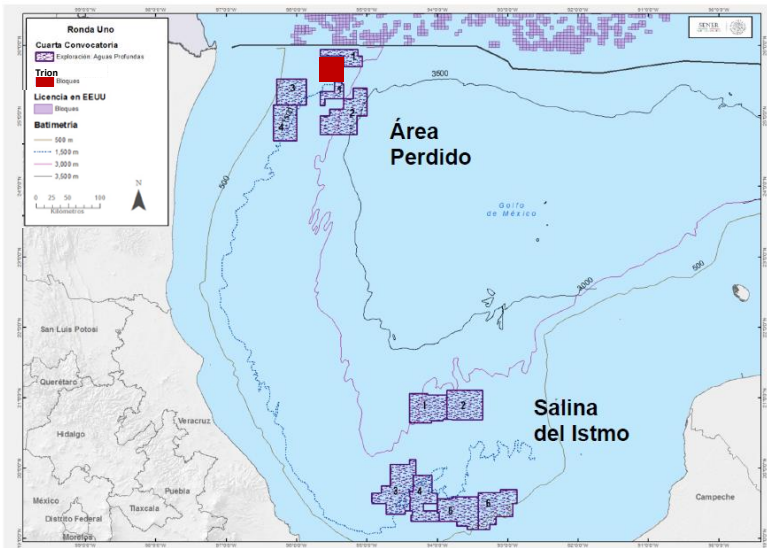
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The largest public-private partnership since 1938. The joint venture between BHP Billiton and Pemex in such a high profile project is a milestone in Mexico’s energy sector history. Such partnership has not been possible since the beginning of the company back in 1938 and it was the Energy Reform that made this possible. Moreover, it is worth highlighting that this partnership will help Pemex continue with its investments in this area.

Blocks tendered in Round 1.4



Source: Ministry of Energy

A very successful allocation. Eight blocks (80%) out of the 10 tendered were allocated, with most of the firms being European and Asian, as shown in the table below. This number was significantly above to what the government was expecting (~40%) amid an environment of a marginal recovery of oil prices after the OPEP deal. Moreover, it is worth noting that the initial investment required in deep-water fields is much more than the one required to explore and to produce in shallow water and on land.

Allocations of Round 1.4 (1/2)

Area	Bidder	Country of Origin	Minimum value of additional royalty	Additional royalty	Additional investment factor	Weighted value of the economic proposal	Type of hydrocarbon to exploit
1. Trion	BHP Billiton	Australia	3.0	4.00			Light Oil
1. Perdido Belt	China Offshore Oil Corporation	China	3.1	17.01	1.5	100.476	Super light oil
2. Perdido Belt	Total and ExxonMobile	France and United States	3.1	5.00	1.5	44.150	Light and super light oil, and wet gas
3. Perdido Belt	Chevron, Pemex e Inpex	United States, Mexico and Japan	3.1	7.44	0.0	29.760	Light and super light oil
4. Perdido Belt	China Offshore Oil Corporation	China	3.1	15.01	1.0	80.744	Light and super light oil

Source: SENER, CNH

Allocations of Round 1.4 (2/2)

Area	Bidder	Country of Origin	Minimum value of additional royalty	Additional royalty	Additional investment factor	Weighted value of the economic proposal	Type of hydrocarbon to exploit
1. Salina Basin	Statoil, BP and Total	Norway, UK and France	1.9	10.00	1.0	58.400	Light and super light oil
2. Salina Basin	Vacio		1.9				Light Oil and pesado
3. Salina Basin	Statoil, BP and Total	Norway, UK and France	1.9	10.00	1.0	58.400	Light Oil and wet gas
4. Salina Basin	PC Carigali and Sierra	Malaysia and México	1.9	22.99	0.0	91.960	Light Oil and wet gas
5. Salina Basin	Murphand, Ophir, PC Carigali and Sierra	US, UK, Malaysia and Mexico	1.9	26.91	1.0	133.818	Light and extra heavy oil, and wet gas
6. Salina Basin	Vacio		1.9				Extra heavy oil

Fuente: SENER, CNH

Round 2 will start in March 2017. Today was the final step within Round 1. The next step, known as Round 2, will be carried out in three stages starting next year. The allocation of Round 2.1 will take place on March 22, 2017, and will involve 15 shallow-water fields in the Southeast Basins, Tampico, Misantla and Veracruz. Round 2.2 will allocate 12 onshore fields in the states of Tamaulipas and Chiapas on the 5th of April. Finally, the third round will take place on July 12 and involves 14 onshore fields in also in Tamaulipas and Chiapas.

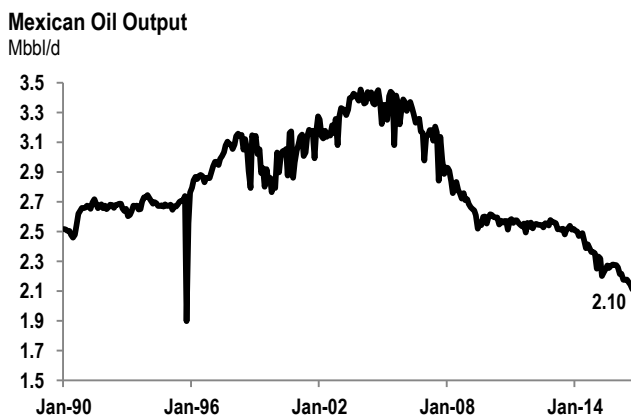
All in all, an excellent result for the last stage of Round 1. We believe that today's allocations were very successful given the difficulties that deep-sea exploration entails. Given that Pemex does not have the sufficient technology to properly exploit these resources, the investment from private firms is necessary. The results of this round far surpassed our expectations given the improvements and additional information given the size of the projects, which better prepares the government for future endeavors.

From our fixed income and FX strategand team

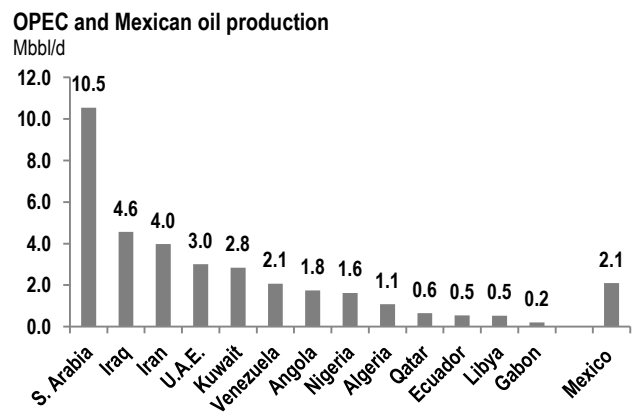
Mexico’s oil auction process in a more favorable backdrop for global energy markets

The fourth installment of Mexico’s Round One held today took place in a context in which markets were surprised just last week with the production cut deal unveiled by OPEC, which is still missing the agreement with non-member countries in coming days. For further details, see: “OPEC: We have a deal, but let’s see who really sticks to it”, December 2nd, 2016, <pdf>. It is worth stressing that Mexico is not part of this deal, as the country’s strategy is focused on the search of strong partnerships for the exploitation of new oil fields to arrest the decline in production levels. As showed in the chart below on the left, Mexico’s production platform in recent years has been in the midst of an important declination phase, with 2.1 million barrels per day (Mbbbl/d) last October from a maximum of 3.5 Mbbbl/d in December 2003. This has mostly been driven by lower production in the Cantarell field. Despite this adjustment, Mexico remains as a relevant player when compared to other producers, even in the case of other OPEC members (see chart below on the right).

It is our take that the production cut agreed will be positive for crude-oil prices in the mid-term, providing a more favorable backdrop for future auctions and farm-outs in Mexico. In this context, the “Improved Scenario” included in *Pemex’s Business Plan 2017-2021* forecasts crude-oil production of 1.9 Mbbbl/d in 2017, recovering towards 2.2 Mbbbl/d by 2021. Among the projects contemplated for next year we highlight the farm-outs of Ayín-Batsil, Ayatsil-Tekel-Utsil, and Chicontepec. Moreover, we also note the agenda for the Round 2 auction process, which contemplates oil fields located in the Burgos Basin.



Source: Pemex



Source: OPEC (considers reference production set on Nov 30th) and Pemex

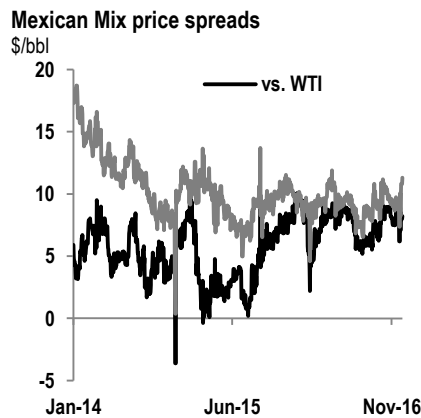
Price dynamics

Expectations related to the oil production cut agreement of a faster rebalancing between global supply and demand have led to an important recovery in crude-oil prices. In particular, Mexico’s crude oil mix (chart below on the left) was at a minimum of 18.90 US\$/bbl in January, surging more than twice as of last Friday to 43.68 US\$/bbl. The price has appreciated 131%, stronger than the increase in international benchmarks such as WTI (~97%) and Brent (~83%). Although we believe that the impact of the agreement could push these benchmarks up to the 60 US\$/bbl zone in coming months, the impact to Mexico’s mix could be more limited as, according to historical data, higher prices tend to result in wider spreads (see chart below, middle).

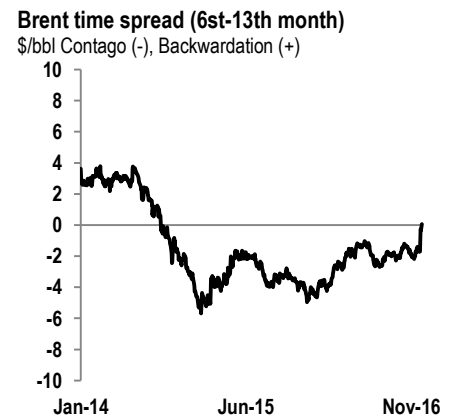
On the other hand and in line with our expectations, the oil futures curve has begun to show an important adjustment towards backwardation (future prices lower than spot). In fact and as shown in the chart below to the right, some sections of the curve already show that the direction of the spread has flipped over, reacting strongly after the Vienna accord last week. This is not only relevant for trading financial instruments but also because it lowers incentives to hedge prices for future production, resulting in a reduction in still-prevailing high levels of inventories.



Source: Pemex



Source: Pemex and Bloomberg



Source: Bloomberg

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