

Mexico: Oil Round 1 - Not the kind of start we were hoping for

Today, the National Hydrocarbons Commission conducted the first auctions of Round 1 to allocate to private investors 14 shallow-water oil fields (in exploratory phase) in the Southeastern Basin of the Gulf of Mexico. However, contrary to our expectations, the welcoming was rather lukewarm by the investor community. Only 14.3% of the fields (two out of 14 fields) was allocated—well below the 30%-50% range expected— with eight auctions lacking any interest at all (see first table). The winner in the two fields awarded was the consortium formed by Sierra Oil & Gas, Talos Energy and Premier. While there were bids for other four fields, the proposals were below the minimum requirements set by the Ministry of Finance. We believe today's result cannot be explained single-handedly. First, the lack of interest could be attributed to the features of the fields themselves: they were probably too small for some investors or the geological features were not attractive enough in terms of the probability of success. Second, the thresholds set by the government were not attractive enough for the companies. Third, some companies were probably “testing the waters” of how the bidding process was going to work and their interest was limited to understanding the process or accessing the data room. Finally, while we think plummeting oil prices are also partially to blame, break even prices in these fields are between US\$20 and 25, still attractive in the current environment.

Mexico: Oil Bidding Rounds - Stage 1, Round 1

Field	Bidding companies	% of the state's share in operational profits	
		Minimum %	% offered by companies
1	<i>No bids</i>	40	
2	Sierra Oil & Gas, Talos Energy and Premier	40	56.0
	Hunt Oil Co		54.6
3	Murphy and Petronas	40	35.0
4	Murphy and Petronas	40	35.0
5	<i>No bids</i>	40	
6	ONGC Videsh Limited	40	20.0
7	Sierra Oil & Gas, Talos Energy and Premier	40	69.0
	Statoil E&P México		65.0
	Hunt Oil Co		65.1
	Eni International B.V. & Casa Exploration		57.0
	E&P & Pan American Energy LLC		27.3
8	<i>No bids</i>	25	
9	<i>No bids</i>	40	
10	<i>No bids</i>	40	
11	<i>No bids</i>	25	
12	ONGC Videsh Limited	25	20.0
13	<i>No bids</i>	25	
14	<i>No bids</i>	25	
Total			

Companies without bids: Atlantic Rim and Cobalt.

Source: CNH.

Looking forward, we think the government will need to be more flexible in order to revive the interest of private participants, probably changing the thresholds of the biddings, or the terms of

the guarantees. Worth mentioning, the fields not allocated in this first stage will probably be auctioned again at a later stage, either in Round 1 or later.

As it has happened in the recent past, expectations were high in terms of the implementation of the structural reforms and their impact on growth and investment, and once again, we are facing a slower-than-expected impact. According to the original plan, the government was expecting US\$16.8bn in investment over the next five years if all 14 blocks would have been allocated. The two fields awarded are consistent with an overall investment of US\$2.6 billion in the next five years. The only silver lining is that this additional private investment was unthinkable a few years ago, before the approval of the energy overhaul. The second phase of Round 1 (shallow water fields in extraction phase) will be auctioned in September (second table), followed by on-shore fields in extraction phase in December.

Mexico: Stages and schedule for Round 1

Stage	Call for bids	Data Room Request + Access	Allocation	Contract signing	Contract Type
1. Shallow Water (exploration)	Dec-14	Jan 15 - Jul 15	Jul-15	Aug-15	Production Sharing
2. Shallow Water (extraction)	Feb-15	Feb 15 - Sep 15	Sep-15	Nov-15	Production Sharing
3. On Shore (extraction)	May-15	May 15 - Dec 15	Dec-15	Feb-16	Licenses
4. Deep Water & Extra heavy oil	To be defined	To be defined	To be defined	To be defined	To be defined
5. Non-Conventional (+ Chicontepec)	To be defined	To be defined	To be defined	To be defined	To be defined

Source: National Hydrocarbons Commission

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