Chapter 6

Financial Analysis of Oil and Gas Exploration Companies Operating in Egypt

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ABSTRACT

This chapter studied financial statements of the three main oil and gas E&P companies in Egypt comparing 2009, 2010, 2011 and 2012 figures. The analysis is conducted with the help of horizontal and vertical analysis of income statements and balance sheets as well as financial ratios. All financial statements are obtained from the corporate web sites of relevant companies.

INTRODUCTION

Given the fact that gas demand is rapidly increasing all around the world, Egypt stands out as one of the countries that has some of the highest energy subsidies - 7th lowest diesel prices- despite being a net oil importer. Other than the large offshore gas fields, Egypt’s oil and gas industry is dominated by relatively small and mature fields, which require small, cost effective and technically sophisticated international juniors to develop them effectively. Egypt’s 4.5 billion bbls of proven oil reserves account for less than 0.5% of the world oil reserves and about 15 years of Egyptian demand while Egypt’s natural gas reserves of nearly 70 tcf would provide for about 40 years of demand. According to statistics oil and gas sector represents 15% of Egypt’s GDP (KPMG, 2013). However, Egypt is becoming a net importer of oil due to declining production coupled with rising energy needs. On the other hand, Egypt is a gas exporter through liquefied natural gas (LNG) and pipeline. Figure 1 clearly illustrates the gap between production and consumption in the Egyptian oil and gas industries.

Egypt General Petroleum Company (EGPC) is the Government of Egypt (GOE)’s main oil and gas arm and is responsible for the development of Egypt’s petroleum resources, and for ensuring the supply of refined petroleum products in Egypt. EGPC exercises some of these responsibilities through its 100% owned subsidiaries: EGAS (for new gas concessions and downstream gas) and

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Ganoub (responsible for O&G in the South of Egypt). EGPC is the regulator but also a partner in upstream joint venture (JVs) and owner and operator of nearly all Egypt’s refining, transport and distribution assets in the oil and gas sector. EGPC is an economic authority of the GOE (same legal status as the Central Bank and not subject to bankruptcy or insolvency proceedings under Egyptian Law).

Most oil and gas concessions in Egypt take the form of production sharing agreements where the international oil and gas company are entitled typically to a 40-50% share of oil and gas produced and the rest goes to EGPC for free. EGPC also has exclusive rights to off take all the companies’ share of oil and gas. For oil, EGPC pays international prices whereas gas producers are paid a fixed price of $2.65 per mmbtu. Oil is mainly refined locally by EGPC and the products are then sold domestically at subsidized prices. Most subsidized products are diesel, low octane gasoline, liquefied petroleum gas (LPG) and residential gas. About 80% of gas is sold domestically (at $0.5-3 per mmbtu) with the rest exported via LNG or the Arab Gas Pipeline.

In this chapter, we have analyzed the financials of 3 selected global oil and gas manufacturers in Egypt which are Kuweit Energy, Transglobe Energy Corporation and Melrose Resources Plc. It consists of three major sections which are overview