



Trading is Part of the Oil Business: The **Oando's Lease** of Trinidad and Tobago's **Guaracara Oil Refinery**.



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The strategic play by Nigeria's indigenous oil and energy firm, **Oando Plc**, leasing an oil refinery in Trinidad and Tobago has brought home the impact of the disruption at play in the oil sector where the search for markets and forex earnings compels shifts in models.

While the announced lease raised the hackles of Nigerian observers, it suggested an information gap in understanding the game at play. Against the background of refining giant **Dangote Refinery's** processing roughly 500,000 barrels of oil per day, introducing pricing dynamics, and distribution disruptions in the local market, coupled with the FGN's promotion of the case for smaller local refineries like the **NNPC** (Port Harcourt and Warri), **BUA Refinery**, and the **Walter Smith Refinery** producing additional quantities; the **Oando** foreign lease gambit appears strategically instructive.

Analysts had asked a few questions:

- ❏ Given that the Trinidad & Tobago refinery is over 100 years old, is it still a good investment; even if the market is limited to Trinidad & Tobago, and the Caribbean?
- ❏ Would a local refinery acquisition or construction be a better business approach to Oando's midstream operations?
- ❏ What is the FX play here, and why Trinidad & Tobago at a time the refinery business is reeling from strategic supply in and from Nigeria?
- ❏ Given the recent acquisition of AGIP, what are the financial realities like, such that will compel owning/running a refinery in Trinidad & Tobago?

Oando's gameplay here, from preliminary EMI intel, would suggest that the company's Trinidad and Tobago refinery appears more of a **trading play** than a **production play**.

A review of the domestic Nigerian oil market suggests that the dominant oil refineries are playing more prominent roles in domestic oil supply chains, and from this, the trading end of the oil business, evolved to expand the scope of an Oil & gas business that needed to make brilliant strategic shifts.

Corporations in the midstream and downstream business have increasingly sought to grow external market presence, which has involved the leasing of foreign refining capacity in joint venture (JV) agreements in new territories and the gradual increase in market share in continental markets, especially, sub-Saharan Africa. The strategy represents a diversification plan to reduce exclusive business exposure to a Nigerian market plagued by incidences of oil bunkering and theft, which has restricted output and revenue generation in local brownfield refineries.

Proshare's EMI contends that Oando Plc is exploring a market strategy beyond Africa and making a play for the Caribbean market where the Trinidad and Tobago refinery offers a unique play to aggregate the two plays., via Guyana crude feedstock which is then sold throughout the Caribbean with possible extension to a few sub-Saharan African markets; or a simple play in the trading market (hedging)

The Trinidadian refinery's proximity to large oil producers such as Guyana, Suriname, and Brazil, with a combined production capacity of roughly 4 million barrels per day, should, on paper, allow easier access to crude; however, the refinery was shut down on November 30, 2018, due to inability to access competitively priced imported crude oil, showing a crude supply deficit that makes crude refining costly and unsustainable – something Oando might have cracked, hence the award.

The demand for refined white oil products in the Caribbean is relatively strong; according to the **Observatory of Economic Complexity (OEC)**, Trinidad and Tobago imported around US\$686m of refined petroleum in 2023 and US\$568m as exports to countries like Barbados, Guyana, Belgium, and China. Oando can leverage the leased refinery to grow domestic accessibility, reduce importation, and deepen exports to specific countries.

Nigeria's dominant middle and downstream market players have tweaked their competitive game plans, shifting from focusing solely on the African continent to meeting demand propositions in other parts of the world. Dangote Refinery, for example, has created supply chain links to other African countries and leaned on the market-creating opportunities of other prospective smaller players in these markets. This has encouraged smaller mid-sized downstream operators to look for market advantage elsewhere, including the Caribbean.

Oando and its Investments

With the **acquisition of the Nigerian Agip Oil Company's (NAOC's)** local oil assets and few other investments in 2023/2024, Oando's management has had to devise strategies for 'sweating' acquired assets to support rising financing and operating cash flow needs. The Agip acquisition, costing US\$783m, and clean energy initiative, which involved buying 5,000 electric buses, had an initial downside effect on liquidity ahead of future long-term earnings (in other words, lower initial free cash flow). Nevertheless, the new asset investments showed Oando's commitment to growing its upstream and midstream operations by increasing reserves and production through greater control over assets that were previously shared.

However, the ability to sweat the new assets would be critical in determining the group's capacity to improve earnings and shareholder value. The company's shareholder value consideration has been a sore point in recent times as shareholders have resisted the company's attempt to **delist from the Nigerian Exchange Limited (NGX)**. The delayed publication of the indigenous oil company's financial statements and the company's **technical suspension** from the NGX and Johannesburg Exchanges in 2024 impacted shareholders' returns.



Market Feedback.

Stakeholders' concerns about Oando's foray into the Guaracara Refinery centre around the rationale and operational viability of the investment. A few domestic refineries define the domestic midstream market, which Oando could invest in to strengthen the country's oil and gas value chain, particularly in the current geopolitical landscape, where all countries must guarantee the supply chain of their key commodities.

That the Guaracara Refinery has been established over a century ago and shut down since 2018 due to declining crude production and unsustainable refining costs raises legitimate worries. Restarting the facility would require significant capital investment and access to competitively priced crude feedstock, which Trinidad & Tobago is unlikely to supply domestically.

According to ArgusMedia, the country's crude production **dropped from 144,400 b/d in 2005 to just 49,880 b/d in early 2024**, forcing reliance on imported feedstock. Supply from neighbouring Guyana is also not guaranteed as the new oil producer rejected a proposal to supply crude to revive the said refinery in 2024, further complicating the feedstock sourcing. Proshare's EMI understands that Oando has a long-term forward contract that guarantees the supply of its domestic crude oil output from its 40% share of the JV with NNPC. However, Oando's strategic positioning in Guyana, through sponsorship and support of the **Guyana Energy Conference** for a few years, could offer some respite to releasing crude from Guyana for the leased refinery in Trinidad and Tobago.

For refined fuel, Trinidad & Tobago's small population of less than 2m suggests limited local demand. It could leave **Oando Plc** scrambling for customers in the global refined oil market, which new and bigger suppliers support. If Oando plans to import refined products into Nigeria, it will face stiff competition from domestic refineries like Dangote and NNPC and significant cost pressures due to the depreciation of the naira against the dollar, which often impacts freight costs, import duties, and other dollar-denominated charges. This will muscle it out of the domestic Nigerian downstream retail market.

Proshare's EMI will continue to monitor these and other issues as part of its surveillance of Nigeria's Oil and Gas sector's business reimagination journey in an uncertain global energy market.

For further updates on **Oando Plc**, follow the company **Proshare Investor Relations (IR) Portal**.

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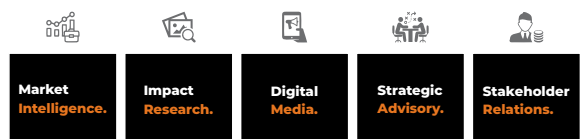
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