Fieldwood Energy: Opportunities and challenges abound

In our previous US Gulf of Mexico (US GoM) note we discussed several upstream portfolios potentially available to investors. In this piece, we take a deeper dive into Fieldwood Energy, a company currently under severe financial stress. One company’s distress, of course, can be another’s opportunity.

Fieldwood is the seventh largest oil producer and a key operator in the US GoM. However, the company is cash constrained, burdened with debt, and has the largest decommissioning commitment on the shelf. The collapse in oil price exposed these weaknesses, with the company missing an interest payment in late-April, making it one of 22 US energy companies to have defaulted by late-July, according to Fitch.

Fieldwood is backed by Riverstone, a private equity firm deeply woven into the US GoM. Riverstone has been involved in several investments with the likes of Talos, ILX and Castex – it recently divested its holdings in the latter two. Given its track record, Riverstone is uniquely positioned to facilitate a transaction in this climate.

Buying its way to a diverse Gulf of Mexico portfolio

Fieldwood has built its portfolio over the last seven years primarily through US$4.9 billion of acquisitions. It executed two sizeable transactions in the US GoM shelf while others were retrenching to the onshore unconventional space. The US$3.75 billion acquisition of Apache’s shelf portfolio in 2013 was quickly followed by the US$705 million purchase of Sandridge Energy’s portfolio in early-2014. These two transactions established Fieldwood as the largest operator on the shelf and were carried out when Brent averaged over US$100/bbl.

In 2017, the company went south of the border to Mexico, bidding successfully for the shallow-water Ichalkil and Pokoch fields. And in 2018, Fieldwood filed a pre-packaged Chapter 11 restructuring plan that wiped out Riverstone’s US$1.6 billion of debt, but included a new capital injection of US$525 million by Riverstone. Fieldwood used the capital injection to make a significant move into the deep waters, buying Noble Energy’s US Gulf of Mexico portfolio for US$480 million. The acquired portfolio gave Fieldwood access to deepwater, oil-weighted assets that included development and exploration upside; opportunities largely exhausted from its shelf portfolio.

Portfolio value driven by deepwater US GoM and Mexico

Fieldwood’s portfolio consists of three distinct asset groups – 1) a cash flow positive deepwater US GoM portfolio with growth potential, 2) a mature US GoM shelf portfolio that is gas-weighted and carries a heavy decommissioning liability, and 3) a shallow-water development in the Bay of Campeche in Mexico, Ichalkil-Pokoch (start-up expected in 2021).

The US GoM deepwater portfolio is the most attractive, consisting of 10 assets that Welligence values at just over US$1 billion (PV10). More than 90% of the value will be realized over the next
five years. New developments like Orlov, Genovesa and Katmai provide growth, while infrastructure assets pull in handling fees from third-party tiebacks. Infrastructure assets can also be a mechanism to provide liquidity through sale and lease back deals.

Map of select Fieldwood assets

Potential buyers of the high-prized deepwater assets include Talos Energy (already a partner at Katmai, Gunflint and Dantzler) and W&T Offshore (partner at Big Bend and Dantzler), which has publicly stated its interest in acquisition opportunities. A transaction at Katmai would potentially come with the Fieldwood-owned Tarantula production facility, which could provide upside from third-party tieback opportunities. Orlov, 100% owned and the most valuable net position in the portfolio, ties back to Fieldwood’s Bullwinkle facility, which is already collecting revenue from third-party tiebacks Angus (Marubeni-operated) and Aspen (Hess-operated). For assets not 100% owned by Fieldwood, the partners may have preferential rights over an outside offer – as such, we do not envision many other companies not already involved competing for the assets.

Relative distribution of Fieldwood’s deepwater US GoM assets

Source: Wellqience Energy Analytics
The Ichalkil-Pokoch project, valued at US$1 billion net to Fieldwood, is under development and we expect first oil in 2021. The development envisions gross recovery of 455 MMbbl and 560 bcf of gas. Phase 1 (2020-2021) is lighter on capex as it will use existing Pemex infrastructure. Phase 2 will require heavy investment with over US$1 billion net (2022-2027) to construct two platforms and a pipeline to shore. We understand that Fieldwood previously marketed the assets but did not come to an agreement with any of the interested parties.

In May 2020, Fieldwood signed a contract-based lending deal with Natixis and Credit Agricole to finance a part of its US$1.5 billion net share of capex. If Fieldwood was to divest its share, interested parties in the asset would have to qualify as an operator. Petrobal, the only partner in the asset, is not qualified to operate.

The US shallow-water assets (across 242 leases) are late-life, gas-heavy and carry a significant abandonment liability (see section “Decommissioning obligations” below). In 2019, the company filed 20% of all shallow-water well abandonment applications in the US GoM, more than any other operator. These are the least attractive assets in the portfolio, and we struggle to see many interested parties. The largest shelf players outside of Fieldwood are Arena, W&T Offshore and Cox, but even those would have a difficult time justifying the purchase.

**Could decommissioning obligations pose a risk for former owners?**
Following the Deepwater Horizon incident in 2010, the Bureau of Safety and Environmental Enforcement (BSEE) has kept much closer tabs on decommissioning obligations. Should a company find itself in a position where it cannot fulfill the capital requirements to perform the necessary decommissioning work, the BSEE has the authority to impose the work onto the partners or previous owners.

According to our analysis, Fieldwood has net decommissioning obligations of US$2.5 billion (real 2020 terms) in the US GoM, of which US$540 million belongs to leases with partners. A resounding US$1.9 billion belongs to leases which Fieldwood owns outright, of which US$1.1 billion is on leases where the previous owner was Apache.

The chart below shows Fieldwood’s decommissioning obligations on leases which it owns 100% and grouped by most recent previous lease owner.
Long road ahead for Fieldwood in the current environment

Fieldwood has a diversified US GoM portfolio – some is very good, but a large part is very challenging. The limited number of quality assets precludes the largest US GoM operators from looking at the portfolio seriously, but there are several independents and partners who will certainly look to increase their stake at the right price.

The biggest issue with the asset base are the shallow-water fields which are gas-weighted, carry heavy abandonment obligations, and will most likely not find a buyer without some restructuring. Simply divesting the prized deepwater assets is not feasible, as it would leave Fieldwood with an unsustainable portfolio.

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