Oil Giant Saudi Aramco Leveraging Favorable Portfolio and Regional Feedstock Advantages to Grow its Presence in Chemicals, IHS Says

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Saudi Arabia’s state-owned oil and gas company is world leader in crude oil production and a leading producer of natural gas

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HOUSTON (Sept. 25, 2014) – Saudi Aramco, the state-owned oil company of Saudi Arabia, and the world’s leading producer of crude oil with 9.4 million barrels per day of production, already has some major bragging rights, but those bragging rights are getting bigger.

In addition to its status as the global leader in oil production and export, Saudi Aramco is a major producer of natural gas and the world’s 6th largest refiner, but it is now rapidly leveraging its feedstock cost advantages and a favorable geographic portfolio to become a growing global competitor in chemical production, according to new research from IHS (NYSE: IHS), the leading global source of critical information and insight.

Saudi Aramco’s portfolio ranges from oil and gas exploration, development and production, to refining and chemicals. Headquartered in Dhahran, in the kingdom’s eastern province, the company employs more than 57,000 employees in 77 countries.

Similar to the chemicals businesses of other oil and gas majors, Saudi Aramco’s product focus is comparatively narrow. The company produces commodity chemicals and polymers, including olefins and derivatives and aromatics. At present, Saudi Aramco’s chemical business accounts for about 10 percent of the corporation’s revenues and earnings, and is managed by the company.
“Saudi Aramco’s entry into the petrochemical space is quite recent, since their facilities first started operations in 2007, so their rapid growth in the space is quite remarkable,” said Sanjay Sharma, vice president, Middle East and India at IHS Chemical. “Saudi Aramco is pursuing a business strategy that identifies advantaged feedstock and optimizes the linkages between refinery, gas processing operations, and petrochemicals. This trend of integrating refineries and petrochemicals is common in other regions, but is a more recent trend in the Middle East, which is leading to more aromatics and derivatives production.”

The company strategy, Sharma said, is translated in the market by Saudi Aramco’s active participation in domestic and international joint ventures (JV), and despite their newness to the space, the company has driven continuous improvements in its domestic and international projects, mainly in China, South Korea, Japan and the U.S., according to the new report, IHS Chemical Company Analysis: Saudi Aramco.

“The integration of Saudi Aramco’s oil and gas production into its refinery and gas processing operations, along with the manufacturing site synergies achieved in the company’s large petrochemical complexes, provide strong competitive advantages for the company,” Sharma said. “This approach is exemplified by the company’s world-scale petrochemicals project called Sadara, which is a U.S. $20 billion JV between Dow Chemical and Saudi Aramco.”

Sadara, according to the IHS report, is scheduled to be onstream in 2016 and will take advantage of the company’s access to low-cost, gas-based feedstocks and liquid feedstocks. Said Sharma, “Sadara’s Jubail complex will produce an array of higher-value performance products—some of which have never been produced in the region, which is significant for the market.”

The company’s Petro Rabigh, a JV with Sumitomo of Japan, is an integrated petrochemical complex that started in 2009 and produces olefins and derivatives in Rabigh, Saudi Arabia. Petro Rabigh is undergoing expansion, with the addition of Rabigh II, which is expected to start production in 2016 to 2017. The main products will include ethylene propylene rubber (EPR), thermoplastic polyolefin (TPO), methyl methacrylate (MMA) monomer, polymethyl methacrylate (PMMA), as well as low-density polyethylene/ethylene vinyl acetate (LDPE/EVA), para-xylene/benzene, cumene and phenol/acetone.

“Sadara and Petro Rabigh’s expansion (Rabigh II) will be the leading projects that will continue to secure a strong foothold for Saudi Aramco in the petrochemicals market,” Sharma said, “and they will enable the company to realize its vision of becoming a leading player in chemicals production.”

According to the IHS report, Saudi Aramco has a number of other JVs, both in the region, and elsewhere, including in South Korea, China, Japan, and in the U.S., where it holds a 50 percent share in Motiva Enterprises LLC. Motiva has three locations in the U.S.—two in Louisiana, and one in Texas.

Saudi Aramco’s strategic projects, noted the IHS report, located mainly in the Middle East and Northeast Asia, cover the most demand-thirsty markets in the world. Most of the plants, which are co-owned by Saudi Aramco, are new, so there are almost no facilities that need be revamped.

Saudi Aramco (Aramco Asia) is also exploring the possibility of starting a refinery in Tuban, East Java, Indonesia. The company signed a memorandum of understanding in 2012 with PT Pertamina (Persero). If started, this refinery will produce petroleum and petrochemical products that will enable the company to cover broader Asian markets.

“Howver,” Sharma said, “Cost reduction and reliability will remain critical elements of any company’s strategic direction. Saudi Aramco is in a growth mode, aiming to claim a greater global market share for many commodity chemicals and plastics, as well as make new forays into higher-value performance chemical markets. As they significantly broaden their portfolio with these higher value performance chemicals, we expect they will become a force to be reckoned with during this decade.”

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