Prospective Riches in Asian Resources

Alberto Migliucci

An Interview with Alberto Migliucci,
Chief Executive Officer and Founder, Petra Commodities

EDITORS' NOTE *Alberto Migliucci is a specialist in natural resources for M&A, capital raising, structured finance, IPOs, investments, and advisory. He is an investment banker and geologist with over 25 years of industry and finance experience within the energy, oil and gas, and mining sectors. He is the CEO and founder of the Singapore-based boutique commodities firm Petra Commodities. Migliucci was Managing Director and Head of Mining & Metals for Credit Suisse Investment Bank and the Head of Southeast Asia Oil & Gas and Energy (Global Energy Group) in Asia. As a banker, he spearheaded many landmark natural resources transactions with a cumulative total greater than $100 billion. He worked for Standard Bank Plc where he drove the bank's energy business as the Head of Energy Finance for Asia Pacific. As a project finance specialist in Asia, he also worked for The Sumitomo Bank of Japan, Westpac Banking Corporation (Australia), and Societe Generale in Hong Kong. Prior to his banking career, Migliucci worked as a geologist. He holds a Bachelor of Science (Geology) with First Class Honors, University of New South Wales (Sydney) and Masters of Applied Finance, Macquarie University (Sydney).*

COMPANY BRIEF *Petra Commodities Pte Ltd (petracommodities.com), is an independent advisory and investment boutique specializing purely in natural resources. The company sources Asian natural resources projects of the highest caliber through its established network of corporate and ultra-high-net worth individuals. Utilizing its unique combination of financial advisory, geological, and technical expertise, Petra Commodities structures and executes its chosen transactions and invests its own capital alongside its clients' to optimize returns for all investors.*

Would you talk about your background and how it led you to build Petra Commodities?

From a very early stage, I was interested in commodities. I started my career as a geologist, and was fortunate to gain a deep understanding of the natural resources industry by getting valuable hands-on experience with companies like the oil major Esso, as well as oil and gas independents like Santos and Origin, government geological surveys, and an Australian gold miner.

This industry experience put me in good stead for the next 15 years. When I moved into investment banking in Asia, it was a successful career move for me. As a specialist in natural resources, I held various senior regional banking roles, such as head of energy and head of mining and metals for Asia, among others.

Connecting the dots among the different disciplines provided the geneses for Petra Commodities. Resources are risky by nature, so we need to adopt a multidisciplinary approach.

When I established Petra Commodities in 2013, it was a continuation of doing what I love to do and what I am passionate about. Petra Commodities combines investment banking know-how with geological principles to prospective Asian resources. The combination of my industry experience as a geologist, my financial acumen as a senior investment banker, and my deep-seated relationships in the region allowed me to carve out a niche in Asia where there is great demand for these products. Japan, Korea, Taiwan, India, China, and Southeast Asia all have a high demand for natural resources.

No discussion on energy or mining of resources is complete without Asia in the equation, so I'm at the right place at the right time.

Is the role of Asia well understood in that discussion?

If we evaluate which countries have the greatest need for natural resources and the fewest local resources, the countries that come to mind are Japan, Korea, and Taiwan, which are developed nations among an emerging market backdrop. These countries have, for many decades now, had an insatiable need for energy and resources. They have to import all of their resources so, by default, there is a ready-made, solid demand center in those countries.

When we add to that the 800-pound gorilla, which is China, we have a massive demand scenario where most of the big natural resources are required in large quantities. Then you throw in India as well, with another billion people and a growing, emerging market. Finally, you have the rest of Southeast Asia, such as Singapore, which is a highly developed country and needs resources. Then you have countries like Indonesia with a population of circa 270 million people; more than 65 percent of whom are under the age of 35 so, going forward, there's going to be a lot of pressure on the demand for natural resources.

Asia is also in the middle of a very high supply area, so some of the countries that supply these resources are actually at the doorstep of these demand centers.

Petra Commodities is based in Singapore, which is traditionally a regional hub for commodities trading in Asia as well as an important center for wealth. We also have offices in Indonesia and Australia for strategic reasons. These two resource-rich countries hold some of the largest reserves of natural resources in the world. They are global leaders in the export of natural resources like coal, liquid natural gas (LNG), iron ore, gold, nickel, copper, tin, bauxite, and many more strategic commodities.

Indonesia and Australia, for example, are the largest exporters of LNG in the world. All of that LNG goes to Asia. The model that I've adopted for supplying Asia-Pacific is to resource directly from the region because the market isn't too far away. This provides a competitive advantage over some other areas from which the resources have to be transported over long distances to reach the market.

There is a huge benefit in the natural resources space in Asia if we're able to source near the demand centers.

How significant are the gold projects you have in Southeast Asia and how critical is gold in your model?

When we consider gold, U.S. macro factors again take center stage. The U.S. dollar and the U.S equities weigh in on gold, but prices are also supported by safe-haven bids, uncertainties in the EuroZone, and even by the current recession in Japan. Any view on gold needs to be seen through the prism of macroeconomic forces.

Against this backdrop, most of the world's physical demand for gold – like jewelry, for example – comes from India and China. India is the world's biggest importer and consumer of gold, with the country accounting for a quarter of bullion global gold demand. It's cultural – every Indian celebrates Deepavali, and like weddings, this is an auspicious time to splurge on the yellow metal notwithstanding the price. Similarly, China's private sector gold demand

has risen by about 15 times in value over the past 10 years alone, so you can see how important Asia is in terms of investors.

Also, foreign gold reserves can really move the needle in terms of price and can be a big swing factor. For example, as a percentage of its total foreign reserves, the U.S. holds over 70 percent in gold, and countries in Europe like Germany, France, and Italy are near 65 percent as well. So there are high numbers in terms of the overall percentage of gold held in foreign reserve in many countries whereas, in a place like China, it's only 1 percent. If China would think about moving up a few percentage points, this would have an incredible impact on the price of gold consumers would have to pay in stores.

The Chinese government has a lot of room to buy, so they are buying. The Russian government is buying too. They're both buying more as a reflection of diversification than to seek stability.

Gold is becoming more of an asset class, which means when investors go to their private bankers, they will typically invest in products like bonds, equities, cash, and property and, following the Lehman collapse, now into gold. There are a lot of high-net-worth individuals who now make gold a part of their portfolio, whereas it was once just seen only as a jewelry demand product or something in the central banks of countries.

Through Petra Commodities, my dream is to put together a gold company that has an Asian face but with assets in the U.S., Australia, and Indonesia, and to float that company on the Singapore main board.

Indonesia has the largest gold mine in the world, the Grasberg mine, which is owned by the U.S company Freeport-McMoRan Copper & Gold Inc. It is located in the province of Papua in Indonesia. The geology in this area is extraordinary and Petra Commodities is valuing some noteworthy gold prospects in this region. If you go hunting, you must go where the best prospects are. We are also focused on Australia as the second-largest gold producer in the world, and the U.S. state of Nevada, as one of the largest sources of gold in the world. Nevada currently mines nearly 80 percent of all the gold in the United States, and the U.S. is the third-largest producer of gold in the world.

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In the late '80s, I worked in a gold mine in Australia. In my time there, I didn't see one speck of gold – it was so fine, that it had to be extracted through chemical means. Yet every month, I saw the molten yellow metal being poured out of the furnace as dore' (gold) bars, which were then further refined in the form of pure gold bullion bars.

I learned that even if you can't see the value of a commodity, it will become apparent at some point and you need to understand the underlying fundamentals.

On the energy side, what impact is shale technology having on oil and gas?

My first exposure to the oil industry was working at Esso Australia during the '80s, at a time when technologies like 3D seismic, horizontal drilling, and (ultra) deepwater drilling were very nascent. Since then, there has been a massive absorption of these technologies, which means a few things: The quality of data that we're getting to find unknown oil fields is increasing and the probability of pinpointing the oil is getting higher. When we find the oil or gas fields, the extraction, recovery, and success rates are much higher too. In addition, we're going into places that seemed impossible to enter 30 years ago.

From a horizontal drilling point of view, the shale gas revolution is amazing. It has taken off over the past decade. The shale revolution is here to stay, and the scalability of shale and the true size of the resources base in some of these basins in the U.S. is phenomenal.

As a result of technology, there is now a large accessibility to these massive resources that we've never had before, and drilling on land has become attractive again. This has also meant that the technology to produce oil or gas out of the shale has become less risky, and it has almost become commoditized. The oil industry has never been like a manufacturing process – it has always been very scientific.

In the '70s and '80s, we started looking offshore because that was where the big prospective fields were and it was all about the size of the prize. Today, there are incredible economics of drilling back on land in an area that's very scalable and that has large resources. Drilling offshore has never been easy. This whole shale gas revolution has created a U.S. onshore play, which also has the added dimension of no geopolitical risk. This has created energy security, which has been the catalyst for most of the large energy M&A deals in the past decade. It's actually a big paradigm shift – probably one of the biggest things that has happened in energy over the past 50 years.

It started off in the U.S., and the technology is now getting transported to Asia. Asia is still quite some time behind in terms of getting up to the U.S. level on shale technology and applying it to different basins here. Having said that, Australia will see the world's first coal seam gas to liquefied natural gas project export gas to Asia this year. This is an example of energy security and a rebalancing of energy driving technology.

Coal price is suffering from a hangover of oversupply globally.

There are those who say the end is here for coal. Do you feel coal is still relevant?

Yes. The energy world is in a state of rebalance, and coal is essentially filling the gap while the world makes up its mind on which energy mix to deploy in future years. I believe in the very long run, gas will dethrone 'old king coal', but heavy reliance on the black stuff will continue for some time to come.

Coal price is suffering from a hangover of oversupply globally and has had double or triple the impact of lower prices because of the high U.S dollar (which is bearish for commodity prices) and the low oil price (which is an energy competitor to coal). Additionally, most of the world's major commodity currencies are falling against the U.S. dollar, which effectively lowers the U.S. dollar cost curve.

When the oil price is low, it will have a knock-on effect on commodities because energy is a key cost-driver for all commodities that are mined, including coal. When energy costs are down, it means that the miners can reduce their costs a bit and still produce coal to keep the supply (artificially) high. At the moment, the world's coal production is still higher than it was a year or two ago when coal prices were higher.

This general lack of supply discipline will have a negative affect on the coal price. But fundamentally, coal is an energy source that still underpins many of the power stations in China, Asia, and Europe. You will be surprised to know that coal had the biggest increase in global energy output – approximately twice that of oil and three times that for gas – during the period 2000 to 2014, and most of that increase was from Asian emerging markets. It's still a cheap energy source, and there is a great deal of infrastructure that has been laid around coal over the past 50 years.

Nobody is investing in coal so perhaps now is a good time to look at some of the lower cost producers of a higher quality product that are backed by established infrastructure and close to the Asian markets. As an investor, you need to be on the right side of the equation. ●