

The growth in upstream oil and gas in Southeast Asia is real. So is the execution gap.

April 2026

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Growth is imperative but challenging

Fifteen years of Southeast Asia upstream M&A data tell a stark story: Southeast Asia has moved from a region where growth was found to one where it must be earned. Investment discipline, faster conversion of resources to cashflow, and stronger capabilities will drive this growth.

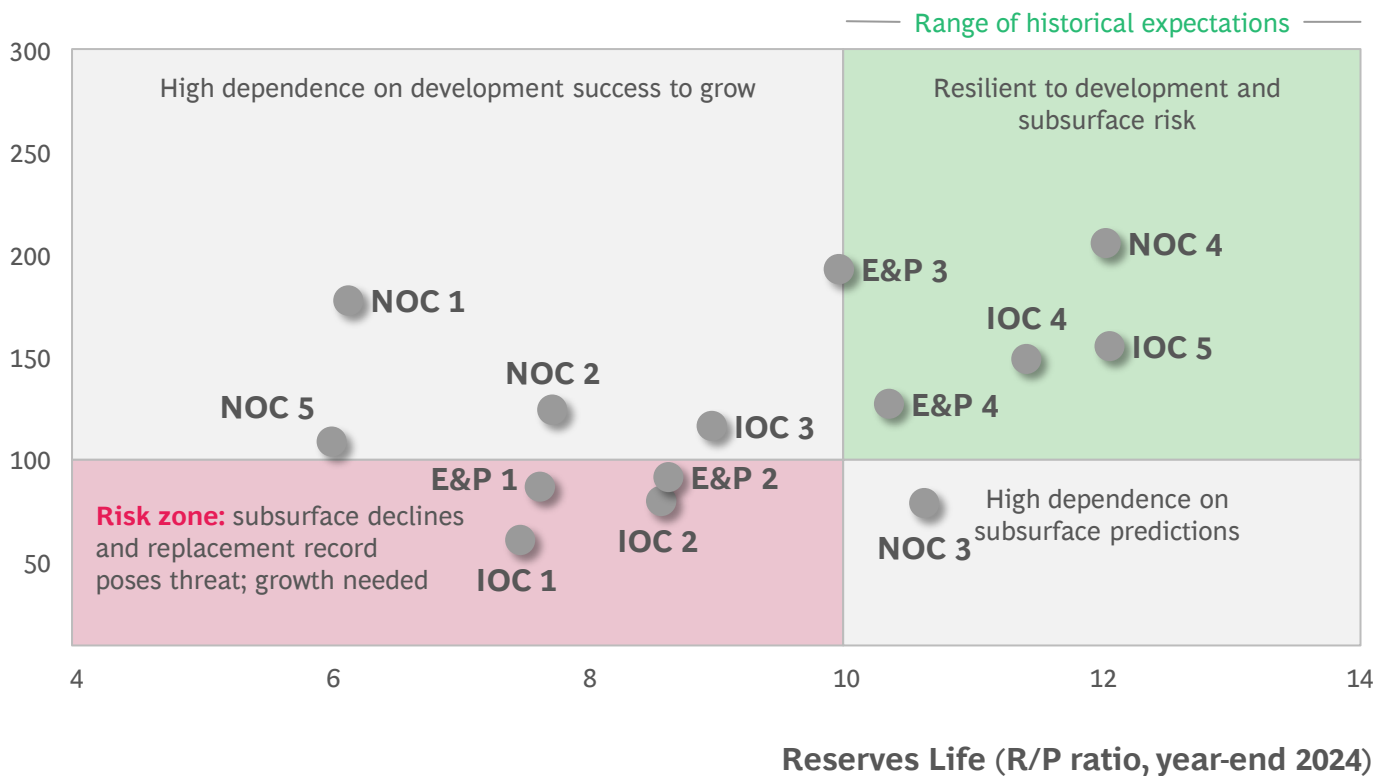
For national oil companies (NOCs), growth is tied to national energy security and fiscal resilience. Meanwhile for international oil companies (IOCs) and independents,

growth determines market positioning and capital competitiveness. For both, upstream oil and gas (O&G) remains the core cash engine of the enterprise and the backbone of distributions. However, there are realities which must be recognized in this landscape. For several regional and international players, reserve replacement has not consistently outpaced production, and reserve life is tightening. [Exhibit 1]

EXHIBIT 1

Reserves Replacement Ratios and Life for Upstream Operators

3-yr Reserve Replacement Ratio (%)



Source: Operator annual reports, BCG analysis
Data not exhaustive

Less than a third of operators surveyed by Boston Consulting Group (BCG) have strong protection against subsurface declines and development track records. None of the Southeast Asia-domiciled operators surveyed fall into this category, partly illustrating the challenge of maintaining growth in this region.

Looking forward, there is rising complexity in upstream globally. Higher-CO2 reservoirs, more demanding infrastructure needs, and deeper water requirements may contribute to rising costs for new developments. Moreover, these new reserves on average are decreasing in size. [Exhibit 2]

EXHIBIT 2

Breakeven Oil Price for Upstream Projects



Source: Rystad Energy; BCG analysis
 Analysis showing supply curves for new conventional fields sanctioned for development, per FID year; FID BE oil price expressed in real 2023 USD and considers the full lifecycle capex and opex of the asset with an IRR of 10% pre-tax

This places an even greater premium on maximizing the value of current production, as future discoveries are expected to yield fewer barrels. Furthermore, as existing assets age, they are more susceptible to higher impacts from supply chain and cost shocks, impacting overall profitability.

Furthermore, rising tensions around the Strait of Hormuz have sharpened the focus on energy security, prompting some Asian government to prioritize closer and more reliable supply. Southeast Asia is central to this shift—well positioned near Northeast Asia’s demand hubs and facing its own growing gas needs. As a result, upstream investment is no longer driven by economics alone. Energy security now matters just as much, if not more.

M&A as a case study: can reserves and production be grown without weakening capital efficiency and balance sheets?

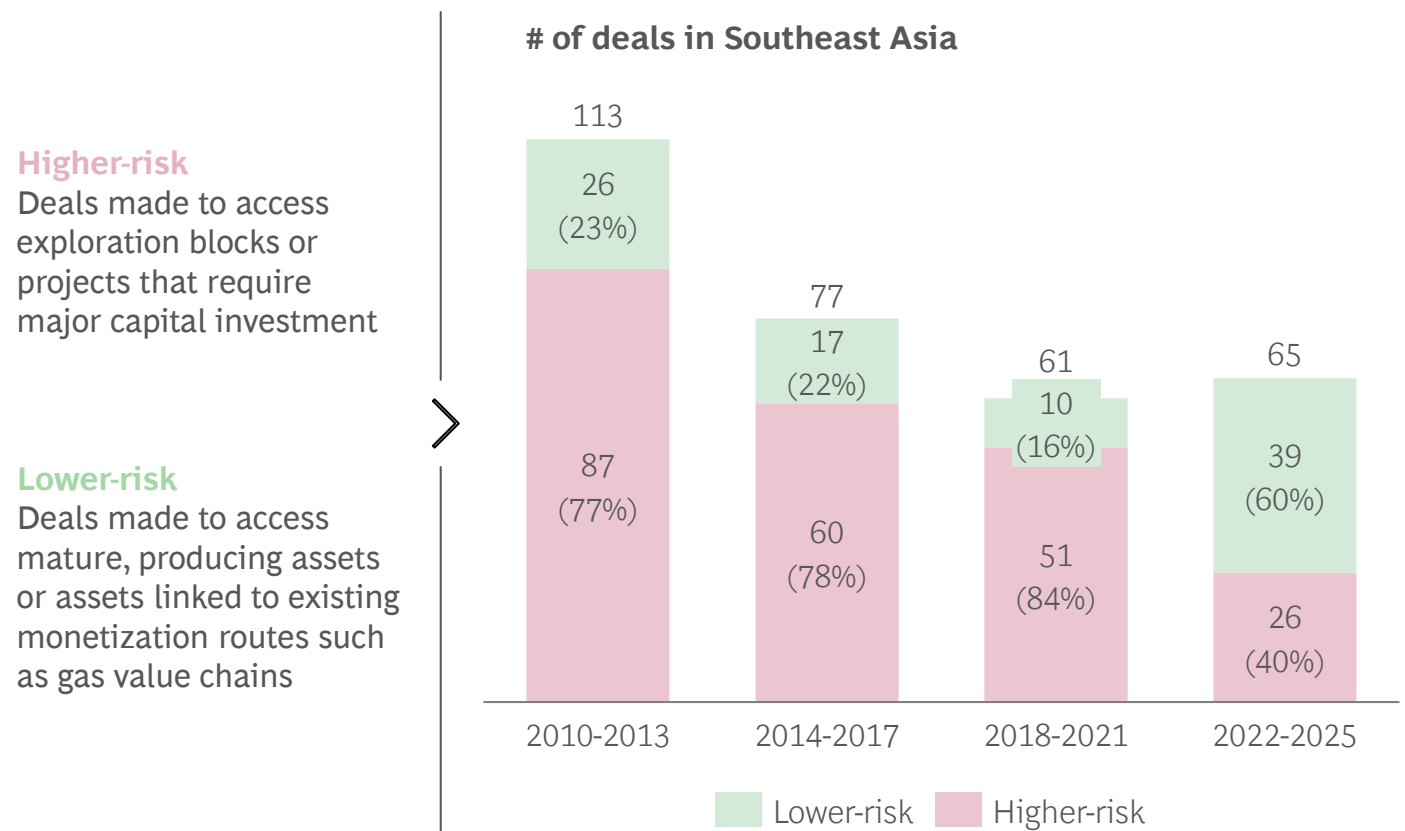
How investors have allocated capital into Southeast Asia upstream over the past decade and a half is a revealing signal of how the growth challenge has evolved and how the urgency has increased.

The preceding 15 years of upstream M&A in Southeast Asia tells a story of two very different capital cycles. From 2010 to 2021, transactions were 75% to 85% higher-risk. These transactions typically involved the acquirer pursuing assets based on exploration upside or resources that had to be unlocked with capital investment. This reflected a Southeast Asian landscape with significant subsurface potential and an upstream region that was attractive for investment for all types of operators.

The 2022 to 2025 phase looked fundamentally different. Southeast Asia upstream M&A moved from managing and capitalizing on subsurface risk to managing operating and reinvestment risk. Energy security was prominently back at the forefront from 2022 due to Russia’s invasion of Ukraine impacting global oil and gas prices. However, deal composition shifted, pivoting toward resilient production and strategic gas positioning rather than development or exploration exposure. This illustrated that acquirers increasingly viewed Southeast Asia as a mature, lower-yield province that could provide cashflow stability in a volatile world. [Exhibit 3]

EXHIBIT 3

Risk Profile of Upstream Deals in Southeast Asia



Source: S&P Global

Historically, growth for acquirers in Southeast Asia was driven by exploration upside and reserves growth in relatively easier to develop and operate fields. Today, many assets require stronger technical capabilities, higher sustaining capital, and a more resilient balance sheet. Upside remains, but it comes with a heavier reinvestment burden. The question for prospective acquirers is no longer who sees more upside. It is who has the operating and financial capacity to unlock it better than the seller.

Looking forward, the nature of deals and investments is likely to shift further in this direction. With the increased emphasis on energy security, prioritizing safe, reliable, and close supply will become even more relevant for decision-makers.

Stepping back to infer what this means for operators' growth ambitions—the capabilities required to create value, including reserves and production, have changed. Without the right technical depth, capital discipline, and execution strength, growth does not translate into returns. For governments, this means creating an investable ecosystem that reflects the complexity of remaining resources. For NOCs and international operators, it means building the development, operating, and financial capabilities required to monetize these assets effectively.

The playbook for winning in the new Southeast Asian reality

Capturing growth in Southeast Asia will not come from the simpler and lower-cost fields of the past. Growth will come from deeper water, higher-CO₂ fields, gas-linked developments, and mature assets that will require sustained investment and care. The execution gap is already visible: operators in Southeast Asia have lagged industry average discovery-to-first-hydrocarbon schedules by three to five years. This gap directly erodes returns in a world where the costs of delay are rising.

This creates a shared imperative. Governments can aim to keep the basin investable for operators. As assets become more complex and capital intensive, the investment framework could reflect that shift. Fiscal terms can be calibrated to match the nature of the field—higher-cost, high-CO₂, frontier or reinvestment-heavy assets require appropriate risk sharing and payback visibility.

Equally, operators also need confidence in speed: bureaucracy and delays in approvals and permits impose a real capital cost. In today's environment, execution certainty is as important as the risk-return profile in determining whether investment flows to a market.

For operators, the playbook is clear. Five factors will define the playbook for Southeast Asia in the upstream going forward:

1. Price in complexity into investment theses
2. Align targeted growth with portfolio reality
3. Choose the right operating model
4. Navigate political and structural complexity
5. Integrate with discipline, intent and heart

#1 Price in complexity alongside uncertainty in the investment thesis

Volume alone is no longer a proxy for value. Operators must build in the scale and persistence of re-investment required in decision making. The evaluation question shifts from reserve-adding to considerations around post-investment cashflow, sensitivities to cost inflation or delays, and future upside unlocked by capital intensity today.

Active portfolio management—including partial divestment of other cashflow-generating stakes to protect balance sheets—may be required to react to complexity and manage exposures.

#2 Align growth with portfolio reality

Growth in Southeast Asia must fit the overall portfolio. An asset may work on its own but strain the enterprise when added to existing obligations. Sustainable growth is portfolio discipline, not asset accumulation in search of metrics.

Prevalent risks to manage in Southeast Asia include over- or under-indexing on selected geographies, mismatching the overall balance of mature and emerging assets, and having the correct investment theses on low-carbon opportunities to support corporate ambitions.

Ultimately, in Southeast Asia today, growth must be linked to resilient cashflow, including limiting sustaining capex, controlling downside price durability, and managing funding obligations.

#3 Choose the right operating model

As technical and capital demands rise, operating models become strategic. Success lies in converting discoveries into production faster and with tighter capital control, using innovative methods, tools, and technologies to move at pace.

For international operators and independents, operatorship often enables cost control, capital sequencing, and execution discipline.

For NOCs who may have different mandates, the equation is different. Partnerships may be equally critical. Access to technical depth, CO₂ management capability, and development expertise can outweigh formal control. The right partner can reduce risk more effectively than the NOC may be able to in a sole ownership model.

In complex assets, execution capability drives value more than equity percentage.

#4 Navigate political and structural complexity

Southeast Asia is not a homogenous operating environment. In addition to working with one or more joint venture (JV) partners, developments often require alignment across federal and state authorities, NOCs and ministries, and local stakeholders and communities. In most Southeast Asian countries, regulatory navigation is strategic, not administrative. Successful operators carefully leverage local senior talent—in management team or advisory capacity—to navigate the various unique local contexts, as capital intensity and increased activity amplify political risk.

#5 Integrate with discipline, intent, and heart

Lastly, many transactions involve acquiring not just assets, but organizations. Value realization depends on retaining the right talent, aligning the cultures of the acquirer and the target asset teams, integrating systems without impacting ongoing operations, and embracing cost transformations only when the time is right.

The recipe for success for Southeast Asia today is not what it used to be

Southeast Asia remains strategically important for both national and international operators, and of course for local governments who are supported by upstream investment in their nations.

The regional basin holds material resources and plays a critical role in Asia's energy system, but the path to growth has changed. It now demands stronger balance sheets, sharper portfolio discipline, more sophisticated partnerships, increasingly mature political navigation, and superior project execution.

In this next phase, growth alone will not differentiate operators. The differentiator will be the ability to grow while protecting capital efficiency and strengthening the enterprise.

This is the new test for upstream growth and investment in Southeast Asia.



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