

# Chuditch Gas Field: High Stakes and Diverging Strategies in the Timor Sea

*By an anonymous citizen of Timor-Leste, 25 April 2025*

In the remote waters of the Timor Sea, the Chuditch gas field has long been a whisper from the past — a modest discovery from 1999, confirmed to hold about 0.9 trillion cubic feet (tcf) of gas, then left dormant amid industry skepticism and geopolitical uncertainty. But two decades later, this quiet gas field has surged back into focus, wrapped in a new narrative of national ambition, private sector pragmatism, and the shifting geopolitics of Southeast Asia's energy frontier.

On April 24, 2025, Sunda Energy Plc, through its Timor-Leste subsidiary SundaGas Banda Unipessoal, Lda., and its state-owned joint venture partner TIMOR GAP Chuditch Unipessoal Lda., announced a landmark financing and restructuring agreement for the drilling of Chuditch-2. <https://www.londonstockexchange.com/news-article/SNDA/chuditch-financing-operational-update/17003465> The deal reconfigures ownership, operational roles, and funding responsibilities, setting the stage for the most critical exploration activity in Timor-Leste's recent petroleum history. While the partnership is touted as a collaborative stride toward unlocking a nationally significant resource, a deeper look reveals an arrangement that disproportionately favors SundaGas, while exposing TIMOR GAP — and by extension, the Timorese state — to significant financial, technical, and political risks.

## **A Shift in Control: Farm-In Agreement and Financial Restructuring**

Under the new farm-in terms, TIMOR GAP increases its stake from 40% to 70% in the Chuditch Production Sharing Contract (PSC), while SundaGas reduces its share from 80% to 30%, retaining operatorship. This shift in equity is matched by a shift in capital responsibilities: TIMOR GAP will now shoulder 72% of the PSC's costs, including the high-cost Chuditch-2 drilling campaign expected to begin by mid-2025.

To fund its reduced share, SundaGas has conditionally raised up to USD 9 million via convertible loan notes from institutional investors — a flexible financial tool that provides upfront capital while giving investors equity conversion rights later. Sunda thus secures the ability to meet its commitments without major dilution or immediate shareholder pressure.

## **SundaGas – A Smart Tactical Genius in a Frontier Market and a Risk-Off International Move**

SundaGas, the international operator, has played its cards wisely in the restructuring of the Chuditch deal. By reducing its stake from 80% to 30%, SundaGas has significantly de-risked its involvement, while still maintaining its position as the operator of the project. This is a brilliant move in an industry where capital is increasingly difficult to secure, and investors are wary of risky ventures. The decision to reduce its financial commitment allows SundaGas to preserve cash and limit its exposure to any potential failure of the Chuditch-2 well.

One of the key advantages for SundaGas in this arrangement is that despite lowering its stake, it retains operational control of the Chuditch project. This means that SundaGas will continue to make the critical technical and operational decisions for the project, ensuring that it retains influence over the pace of exploration and development. This arrangement provides SundaGas with significant flexibility, allowing the company to manage the project while not overcommitting financially.

Furthermore, if the Chuditch-2 well uncovers larger reserves than initially estimated, SundaGas stands to benefit from the upside potential. With a 30% stake, SundaGas could see a substantial return if the field proves more commercially viable, all while bearing a relatively small share of the costs. This gives SundaGas a highly attractive balance of low capital input and high potential reward, a prime example of capital efficiency in the oil and gas industry.

In addition to financial de-risking, this deal also strengthens SundaGas's relationship with the Timor-Leste government. By aligning itself with the government's strategic interests, SundaGas may position itself favorably for future opportunities, including preferential treatment in licensing rounds or service contracts. This can help the company expand its footprint in Timor-Leste and possibly gain access to new projects that could enhance its portfolio.

Another important factor in the deal is the convertible loan that SundaGas secured. The \$9 million loan is non-dilutive unless converted into equity, providing SundaGas with flexible capital without the immediate pressure of diluting its shares. This provides the company with financial flexibility in a challenging investor climate, allowing it to maintain its financial strength while having the option to capitalize on any future share price growth.

However, this deal is not without its risks for SundaGas. The company still carries execution risk, as it is responsible for the technical success of the project. If Chuditch-2 fails to deliver, it could damage SundaGas's reputation and raise questions about its technical credibility. Furthermore, by reducing its stake, SundaGas has traded long-term profits for short-term risk reduction. If the Chuditch field turns out to be a major gas discovery, SundaGas will only receive 30% of the potential windfall, meaning it may have sacrificed significant future returns for its current risk management strategy.

## **TIMOR GAP – A High-Risk, Politically Driven Play**

TIMOR GAP has significantly increased its financial and operational exposure by taking on a larger stake in the Chuditch project. With this new deal, TIMOR GAP now shoulders 72% of the costs associated with the project — an extremely high-risk decision considering the uncertain nature of the field. The Chuditch field, originally discovered in 1999 with only 0.9 tcf of gas, has not yet proven to be a major resource by industry standards. This initial find is far from game-changing, and the chances of significant new discoveries hinge on the success of the Chuditch-2 well. Given the deepwater drilling costs and the field's modest historical resource base, the risk of a costly failure is high. If the well proves to be dry or underwhelming, TIMOR GAP will face massive sunk costs with no return on investment, a scenario that could significantly damage the national oil company's financial standing. Moreover, despite owning 70% of the field, TIMOR GAP still lacks operational control. SundaGas, an international operator, retains responsibility for the technical decisions and day-to-day operations of the project. This means that TIMOR GAP will still be dependent on SundaGas to drive the project forward. For a national oil company claiming to assert its sovereignty and control over Timor-Leste's resources, this dependency undermines any narrative of self-reliance. TIMOR GAP's increased equity stake does not translate into true operational power, leaving it exposed to risks beyond its control.

The decision to increase its stake also appears more politically motivated than commercially driven.

The decision to increase TIMOR GAP stake appears to be driven more by political considerations than by commercial rationale. Ideally, TIMOR GAP's farm-up decisions should be guided by a structured evaluation process that weighs risks against expected returns. Key questions must be addressed: What is the likelihood of failure, and what are the associated costs? What are the range of potential outcomes and their probabilities? How high or low is the probability of success — quantified in percentage terms? What is the Net Present Value (NPV) in a scenario where appraisal drilling proves successful? These commercial and investment analyses are essential and should form the foundation of any farm-up decision to ensure it is economically sound and strategically justifiable.

By owning a larger portion of Chuditch, TIMOR GAP can claim leadership of a national energy resource, aligning with nationalistic goals of controlling the country's natural wealth. However, this focus on political optics comes at the expense of a more pragmatic, commercially viable approach. The project still lacks a committed buyer or an established export pathway, both critical factors for monetizing any gas field. This uncertainty adds another layer of risk for TIMOR GAP, which may find itself heavily invested in a project that struggles to find commercial viability.

Additionally, the capital committed to this high-risk venture could have been better allocated to other, lower-risk projects that could have provided more immediate and predictable returns. With Timor-Leste's Petroleum Fund shrinking, the government may face intense political pressure to ensure that Chuditch succeeds, but the investment in a speculative deepwater project may be a costly misstep if the field fails to deliver the expected results. The opportunity cost of this decision — diverting significant capital into a speculative venture rather than diversifying the asset base — could be steep.

### **A Misaligned Partnership: National Ambition vs. Commercial Pragmatism**

In the end, the contrasting strategies of TIMOR GAP and SundaGas reveal a divergence in their approach to the Chuditch project. TIMOR GAP has taken on an increasingly risky and politically charged position, aiming to assert national control over Timor-Leste's resources without addressing the core commercial uncertainties surrounding the project. This move appears to be motivated more by a desire to claim political ownership of the resource than by any solid commercial rationale. By increasing its stake, TIMOR GAP is exposing itself to financial risks that could severely impact the company's future, with no clear path to monetizing the resource.

In contrast, SundaGas has positioned itself as a more prudent and risk-conscious operator. By reducing its financial exposure while retaining operational control, SundaGas has created a highly flexible, low-risk strategy that maximizes upside potential without overcommitting capital. This approach allows SundaGas to retain the flexibility to walk away from the project if it fails, while still benefiting from any future success.

Ultimately, SundaGas's calculated approach highlights the importance of commercial pragmatism in the oil and gas industry, while TIMOR GAP's decision seems driven more by nationalistic ambition than by a sound commercial strategy. TIMOR GAP's decision could turn out to be a costly gamble, while SundaGas has created a blueprint for smart, risk-managed resource development in a challenging frontier market.

### **Conclusion: Betting the Nation on a Maybe**

The Chuditch project has the potential to transform into a thriving commercial gas hub. The geological outcomes could exceed expectations, SundaGas might bring in new partners, and Timor-Leste could establish export routes and secure buyers. However, none of these developments are certain.

At this stage, what we're witnessing is a savvy private operator managing risk with precision, while a young national oil company makes a bold, yet uncertain, investment with state funds in a project whose technical viability and commercial prospects remain unclear. For SundaGas, the situation is a win-win: if the project succeeds, they benefit; if it fails, they remain financially secure and unscathed. In contrast, TIMOR GAP is in a far riskier position. If the project falters, the consequences will be costly, and even if it succeeds, the rewards will be hard-earned and fragile.

The field may be named after the Chuditch, an elusive and resilient creature, but the true question remains: who will capture it, and who will be left nursing the bite?