Cnooc Buys Nexen for in China’s Top Overseas Acquisition
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Cnooc Ltd. (883) agreed to pay $15.1 billion in cash to acquire Canada’s Nexen Inc. (NXY) in the biggest overseas takeover by a Chinese company.

China’s largest offshore oil and natural-gas explorer is paying $27.50 for each common share, a premium of 61 percent to Calgary-based Nexen’s closing price on July 20, according to its statement to the Hong Kong stock exchange yesterday. Nexen’s board recommended the deal to its shareholders.

“Cnooc is one of the most sensible buyers for Nexen,” Andrew Potter, an analyst at the Canadian Imperial Bank of Commerce, wrote in a note to investors. “The question is whether or not regulators will allow it.”

Nexen’s oil and gas assets include production platforms in the North Sea, the Gulf of Mexico and in Nigeria, as well as oil-sands reserves at Long Lake, Alberta, where it already produces crude in a joint venture with Cnooc. Those assets produced 207,000 barrels a day in the second quarter, which would boost the Chinese company’s output by about 20 percent. About 28 percent of Nexen’s current production is in Canada.

“Given Nexen’s strong international diversity, we believe it would be difficult for regulators to oppose the transaction on this front,” Potter said.

Nexen rose 52 percent to C$26.35 ($25.90) at the close in Toronto yesterday. Cnooc’s American depositary receipts, which represent 100 ordinary shares, fell 4.3 percent to $193.96 in New York the same day.

Second Deal

Nexen is one of two major Chinese energy acquisitions announced yesterday. China Petrochemical Corp. agreed to spend $1.5 billion for a 49 percent stake in Calgary-based Talisman Energy Inc. (TLM)’s U.K. unit after spending $2.2 billion last year to buy Daylight Energy Ltd., also of Calgary.

The Nexen takeover comes as Canadian companies prepare to build new pipelines for transporting Canadian fossil fuel to Asia in an effort to reduce its dependence on the U.S. market, which has depressed prices for crude produced in Alberta’s oil sands and the Bakken in Saskatchewan.

“The political context in Canada is very good at the moment,” said Wenran Jiang, the Mactaggart Research Chair of the China Institute at the University of Alberta who advised the Alberta government on Chinese investment. “The Chinese have been careful to step up their involvement in Canada slowly. This isn't coming out of nowhere.”

The transaction follows the Chinese company’s takeover of Nexen’s partner Opti Canada Inc. last year and the $19 billion bid for Unocal Corp. in 2005, which was blocked by political opposition in the U.S.
Cnooc will offer to buy Nexen’s preferred shares and the Canadian company’s debt of $4.3 billion will remain in place, according to the statement. Beijing-based Cnooc will pay for the acquisition using existing cash funds and external financing. The agreement includes a breakup fee of $425 million if the deal is terminated under certain circumstances.

Nexen has been searching for a new CEO since Marvin Romanow stepped down in January amid a slumping share price and missed production targets. Nexen’s market value had plunged 60 percent before yesterday from a high of C$43.45 in June 2008 as prices fell for natural gas, which accounts for about 20 percent of output. Production growth also slowed more than the company expected because of setbacks at projects in Canada’s oil sands and in the North Sea.

“The Chinese have shown that they’re good at buying assets that have long-term value,” said Jennifer Stevenson, who helps oversee about C$5 billion in assets at Dynamic Funds in Calgary and doesn’t own Nexen shares. “This deal signifies that people who understand the value of oil and gas assets are willing to pay for them.”

Cnooc will add 900 million barrels of oil equivalent reserves at $19.94 per barrel through the deal, according to a document posted to the company’s website. Cnooc plans to boost output by as much as 2.7 percent this year to the equivalent of as much as 930,000 barrels of oil a day.

“Cnooc did a nice job in adding oil reserves at less than $20 a barrel,” said Shi Yan, a Shanghai-based energy analyst at UOB-Kay Hian Ltd. “It’s really a good time to buy assets while crude prices are low and energy firms shed values in stock markets.”

Calgary will become one of Cnooc’s international headquarters and the operations hub for overseeing an additional $8 billion in assets in North and Central America. The Chinese company will also list its shares on the Toronto exchange, it said in the statement.

“This agreement diversifies our reserve base by adding to our presence in Canada while providing high quality assets,” Cnooc Chief Executive Officer Li Fanrong said yesterday on a conference call with reporters. “We are in Canada to invest.”

Canada has become a fertile area for Chinese oil producers seeking to add oil and gas reserves to meet demand in the world’s largest energy-consuming country. After yesterday’s deal, Chinese companies will have spent about $49 billion on buying Canadian fields and oil companies, according to Bloomberg data. In contrast, they’ve laid down just $3.5 billion in U.S. acquisitions.

The deal will cement Cnooc’s position in Canada’s oil sands after last year’s $2.4 billion purchase of Opti Canada. When the transaction closes, Cnooc will own all of Long
Lake, which plans to produce 72,000 barrels a day using steam to melt the tar-like oil out of the sands.

The Canadian government reviews any foreign takeover worth more than C$330 million and is in the process of raising that threshold to an enterprise value of at least C$1 billion over the next four years, Industry Minister Christian Paradis said in May. 

Reassuring Foreigners

Prime Minister Stephen Harper is seeking to assure foreign companies the country is open to investment amid criticism the takeover review system is unpredictable. Harper in 2010 rejected a $40 billion hostile takeover bid for Potash Corp. of Saskatchewan Inc. by BHP Billiton Ltd., saying it didn’t provide a net benefit to the country. It was only the second rejection of a foreign takeover in Canada in 25 years.

Bank of Montreal and Citigroup Inc. provided financial advice to Cnooc, while Stikeman Elliott LLP and Davis Polk & Wardwell LLP acted as legal counsel. Nexen’s financial advisers are Goldman Sachs Group Inc. and Royal Bank of Canada, while its legal advisers are Blake Cassels & Graydon LLP and Paul Weiss Rifkind Wharton and Garrison LLP. Richard A. Shaw Professional Corp. and Burnet, Duckworth & Palmer LLP also served as legal advisers to Nexen’s board.