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China's CNOOC to buy Nexen for $15.1-billion

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China's top offshore oil producer to acquire energy company in cash deal

Nexen Inc. has agreed to a $15.1-billion (U.S.) takeover by Chinese oil producer CNOOC Ltd., marking the most important acquisition to date by an Asian firm in Canada.

The all-cash deal is worth $27.50 per Nexen share, a 66-per-cent premium to the 20-day volume-weighted average for the company, which has not seen its shares reach that level since before the financial crisis. Nexen closed at $17.06 Friday.

Nexen is Canada's 12th-largest energy company, producing 213,000 barrels of oil equivalent per day. But the company has struggled in recent years as its corporate pillars each faced problems. Its North Sea production was hit by a new U.K. tax scheme. Its Gulf of Mexico drilling was hurt by the BP oil spill. Its West African offshore production was hit by a costly drill well. It was forced to abandon a major project in Yemen after a production sharing contract expired there. Its oil sands ambitions were hampered by problems at Long Lake, where problems with underground geology have so far kept it far from reaching its planned output.

Long Lake, however, served as a springboard to the corporate takeover. Last November, CNOOC completed a $2.1-billion buyout of OPTI Canada Inc., which held a 35-per-cent stake in the project, which is still operating at less than half its design capacity years after it began operation.

Prior to the Nexen deal, announced early Monday morning, CNOOC had spent $2.8-billion (Canadian) in Canada. The Nexen deal is not the first corporate oil patch takeover by a Chinese firm, but it is the first transaction of its size. Chinese firms, burned by the failed CNOOC takeover of Unocal Corp. and loath to stir trouble on a continent sensitive to ownership by foreign state-owned entities, have moved cautiously with North American investments.

The Nexen takeover, which will test Canadian foreign ownership rules, is a signal of a dramatic boost in confidence by Chinese acquirers since the Unocal deal died in 2005.

The companies "are an excellent strategic fit with complementary assets," Li Fanrong, chief executive officer of CNOOC said on a conference call.

In a news release, CNOOC said it would work to retain Nexen staff and management, and make Calgary the headquarters for its North and Central American operations, as well as for operating the far-flung Nexen assets.

CNOOC said it will move to list its common shares on the TSX, will continue to support oil sands research at Canadian universities and "will implement and enhance Nexen's current planned capital expenditure program, thereby investing significant capital in Canada and in Nexen's other international assets."

CNOOC said it "brings greater financial capacity to better realize the full potential of Nexen's significant resource base."

Nexen reported second-quarter earnings of $109-million, less than half its earnings from a year before, although its cash flow rose over that period. For the company, the deal marks an end to a turbulent series of years, which were capped in January with the abrupt departures of long-serving chief executive Marvin Romanow and Gary Nieuwenberg, executive vice-president of Canadian operations. Kevin Reinhart, who had served as chief financial officer, was named interim CEO.

In a statement, he said the CNOOC deal "will allow for significant investment in our business and opens the door to new opportunities for our employees."

The warming of political relations between Canada and China has thrown open the door to an increasingly ambitious series of investments, many of them aimed at energy assets. Earlier this year, Athabasca Oil Sands Corp. – since renamed to Athabasca Oil Corp. – agreed to sell its 40-per-cent stake in two oil sands projects to PetroChina Co., giving a Chinese company full ownership of an oil sands development for the first time. That came after Sinopec struck a deal to buy Daylight Energy Ltd. for $2.2-billion last fall.

In another recent major Asian takeover, Malaysian giant Petronas moved to buy Progress Energy Resources Corp. for $5.5-billion in late June.

Capital-rich Asian investors have looked to resource-rich Canada as an increasingly important destination for their money as they seek to secure energy supplies for coming decades. Energy investments have also served as a hedge against an uncertain U.S. dollar. Equally important: rapidly developing plans to export Canadian energy offshore, through proposed liquefied natural gas and oil export terminals on the British Columbia coast, have offered the prospect of transporting physical barrels overseas.

The Nexen takeover is subject to approval by two-thirds of the company's shareholders, who will be asked to vote Sept. 12, and provides a $26, plus accrued dividends, offer to holders of preferred shares, whose assent is not needed for the deal to go through.

The deal is subject to a $425-million (U.S.) break fee, and gives CNOOC the right to match any competing offers – although Nexen has often been the object of takeover rumours that never materialized.

CNOOC's received financial advice on the deal from BMO Capital Markets and Citigroup Global Markets Inc. Nexen called on Goldman Sachs and RBC Dominion Securities.