

+-----+
-----+
'Golden' Brazil Asset May Help Devon Top \$7.5 Billion Sale Plan
2010-01-12 02:00:00.3 GMT

By Peter Millard

Jan. 12 (Bloomberg) -- Devon Energy Corp., the biggest independent U.S. oil and natural-gas producer, may beat a target of generating as much as \$7.5 billion from asset sales as Brazil tightens its grip on the oil industry, boosting the value of the company's holdings in the country, Oppenheimer & Co. said.

Oklahoma City-based Devon, which said Nov. 16 it plans to sell all its offshore and foreign assets to focus on U.S. and Canada drilling, may get more than \$1 billion for its Brazilian fields, Fadel Gheit, managing director of oil and gas research with Oppenheimer in New York, said in a Jan. 8 interview. Devon aims to raise \$4.5 billion to \$7.5 billion this year after taxes by selling properties from Brazil to the Gulf of Mexico.

Proposed changes to Brazil's oil industry will give state-run Petroleo Brasileiro SA a 30 percent stake in all new exploration contracts in the so-called pre-salt region, boosting the value of areas that have already been licensed to Devon, Repsol YPF SA and Woodside Petroleum Ltd. Such blocks would give investors access to reserves near the largest oil discovery in three decades without partnering with the state.

"They came in before the market heated up," Gheit said. "The Brazilian Senate is not going to be as generous with lease terms as in the case of Devon," he said. The "uniqueness" of the assets will boost proceeds to "at least \$7.5 billion and maybe more," said Gheit, who rates the shares "outperform."

Salt Layer

Brazil's government in 2007 removed some offshore blocks, or tracts of land that are licensed to companies for exploration and production of oil, from an auction after it was discovered that crude deposits may sit below a layer of salt. Brazil's next oil block auction set for 2010 won't include pre-salt blocks.

Devon has rallied 22 percent since President Luiz Inacio Lula da Silva announced the new legal framework on Aug. 31, compared with a 12 percent gain by the Standard & Poor's 500 Index. Repsol has climbed 9 percent.

Oil has more than doubled in the past year. Crude for February delivery fell 0.3 percent to \$82.52 a barrel yesterday on the New York Mercantile Exchange, after earlier rising to a 15-month high.

Devon has seven offshore exploratory blocks in Brazil for sale, six of which are in the pre-salt region. The area runs 800 kilometers (500 miles) off Brazil's coast, holding oil under 3,000 meters of water and another 5,000 meters of rock and salt.

'Golden' Blocks

"If you got in on these blocks, generally speaking you're golden," Jeremy Martin, energy director at the non-profit Institute of the Americas, said in telephone interview from La Jolla, California, on Jan. 6. Companies that purchased stakes in such blocks "have got to be loving the way their strategic investments worked out."

Devon will start offering information to potential bidders in February and plans to complete the sale in 2010, spokesman Chip Minty in Oklahoma said in a telephone interview. He declined to comment on the value of the Brazilian assets.

Lula moved to boost state control over offshore oil after Petrobras discovered Tupi, the largest find in the Western Hemisphere since Mexico's Cantarell in 1976. BG Group Plc and Galp Energia SGPS SA own minority stakes in the pre-salt Tupi field, which may hold as much as 8 billion barrels of oil.

Year-End Reserves

Based on estimated year-end 2009 reserves, Devon's Gulf of Mexico and international properties comprise about seven percent of the company's proved reserves of 2.8 billion barrels of oil equivalent, the company said Nov. 16.

"These assets could present attractive opportunities for players with exposure to Brazil," Credit Suisse analysts led by Emerson Leite in Sao Paulo wrote in a Jan. 11 report. OGX Petroleo & Gas Participacoes SA, the oil company controlled by billionaire Eike Batista, would be a "natural buyer," he said.

Devon is the third-largest player in the Campos Basin in terms of exploration acreage, Credit Suisse said in the report. Eni SpA, El Paso Corp. and Hess Corp. may also be potential sellers, Credit Suisse said.

Under regulatory changes proposed by Lula in August, Petrobras will be the sole operator of pre-salt blocks with a minimum 30 percent stake. The legislation was approved by Brazil's lower house Dec. 9. Lawmakers return from vacation Feb. 2 and Lula has asked the Senate to make the bill a top priority.

'Two Ways Forward'

"There's really only two access ways forward -- one with Petrobras and one with existing block holders," Bob Fryklund, vice president of IHS CERA Upstream Research, said in an interview on Dec. 21. "There will undoubtedly be a longline of folks taking a look" at pre-salt assets for sale, he said.

Devon hasn't estimated reserves in its Brazil blocks, making it difficult to put a price on those assets, Fryklund said. IHS says Devon's Polvo field, which sits in shallower waters off Brazil and has 50 million barrels of recoverable reserves, may be worth \$120 million to \$180 million, he said.

Oil companies eyeing Devon's Brazilian assets will have a better idea what's at stake after the company completes a deepwater well this month, Martin said. Devon said Dec. 17 that an exploratory well in BM-C-32 found a 240-foot (73-meter) column of oil in the Campos Basin, six miles southeast of Petrobras's "giant" Jubarte field and 16 miles north of Anadarko Petroleum Corp.'s Wahoo discovery.

"A discovery like this helps the overall value," Rehan Rashid, an analyst at Friedman Billings Ramsey in Arlington, Virginia, said in an

interview on Dec. 18. "It's right next door to a big discovery that has been talked about and is producing at a substantial rate."

The recent Brazil find will help Devon come close to the upper end of that target, said Rashid, who has a "buy" rating on Devon's shares.

"Our position in Brazil, you couldn't put that together today if you wanted to," Devon President John Richels said at an energy conference in New York on Nov. 18.

The following is a list of events in Brazil this week:

*T

Event	Date
FGV Preview Inflation	Jan. 12
Monthly and Yearly IBGE Inflation IPCA	Jan. 13
November Retail Sales	Jan. 14
Monthly FGV Inflation IGP-10	Jan. 15

*T

For Related News and Information:

For company news: DVN US <Equity> CN <GO> For world crude oil supply and demand: OPCB <GO>

--With assistance from Helder Marinho in Rio de Janeiro and Andres Martinez in Mexico City. Editors: Jessica Brice, Dale Crofts

To contact the reporter on this story:

Peter Millard in Mexico City at +52-55-5242-9255 or pmillard1@bloomberg.net.

To contact the editor responsible for this story:

Dale Crofts at +54-11-4321-7735 or dcrofts@bloomberg.net.