

(BN) Cnooc Buys Nexen for \$15.1 Billion in China's Largest Deal

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(Updates with Sinopec deal in ninth paragraph.)

By Aibing Guo

July 23 (Bloomberg) -- Cnooc Ltd. agreed to pay \$15.1 billion in cash to acquire Canada's Nexen Inc. in the biggest overseas takeover by a Chinese company.

China's largest offshore oil and 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 today. Nexen's board recommended the deal to its shareholders.

Nexen will give Cnooc assets in Canada, the U.K., West Africa and the Gulf of Mexico that produced 207,000 barrels a day in the second quarter, boosting the Chinese company's output by about 20 percent. The deal is a second attempt to buy a North American oil and gas producer after political opposition blocked Cnooc's \$19 billion for bid Unocal Corp. in 2005.

"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."

Cnooc will offer to buy Nexen's preferred shares and the Canadian company's debt of \$4.3 billion will remain in place, the statement said. 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.

Sustainable Growth

"The acquisition of Nexen will expand the group's overseas business and resource base in order to deliver long-term sustainable growth," Cnooc said in the statement. "Nexen will complement the group's large offshore production footprint in China."

Nexen's market value has plunged 60 percent from a high of C\$43.45 in June 2008 as its prices fell for natural gas, which accounts for about 20 percent of output. Production growth has also been slower than the company expected because of setbacks at projects in Canada's oil sands and North Sea.

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.

In a separate deal, China Petrochemical Corp., or Sinopec Group, will acquire a 49 percent stake in the U.K. unit of Canada's Talisman Energy Inc. for \$1.5 billion, the Beijing based company said in a statement today.

Fertile Area

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 today's deal, Chinese companies will have spent \$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.

Today's deal will cement Cnooc's position in Canada's oil sands after last year's \$2.4 purchase of OPTI Canada Inc., Nexen's partner in Alberta's Long Lake project. After today's

deal, Cnooc will own all of Long Lake, which aims to produce 72,000 barrels a day using steam to heat the tar-like oil out of the sands.

The Canadian government reviews any foreign takeover worth more than C\$330 million (\$325 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.

Stephen Harper

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.

Margaux Stastny, director of communications for Canadian Industry Minister Paradis, couldn't be reached for comment before regular business hours.

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.

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--With assistance from Marco Lui in Hong Kong and Katia Dmitrieva in New York. Editors: Will Kennedy, Tony Barrett

To contact the reporter on this story:

Aibing Guo in Hong Kong at +852-2977-4623 or
aguo10@bloomberg.net

To contact the editor responsible for this story:

Hwee Ann Tan at +852-2977-6644 or
hatan@bloomberg.net