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Natural Gas Deal a Bonus for Both Shell and Repsol

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LONDON — Royal Dutch Shell, which has agreed to pay more than $6 billion for the liquefied natural gas businesses of the Spanish company Repsol, is taking advantage of Repsol's weakened balance sheet in order to strengthen Shell's own world-leading position in a business with huge profit potential.

The two companies announced late Tuesday that Shell would acquire Repsol's L.N.G. businesses for $4.4 billion in cash and $2.3 billion in financial leases and assumed debt. The sale attracted more than a dozen bids, according to Repsol, and resulted in a price that was more than double pre-sale estimates, according to Bernstein Research.

Oil companies are trying to add to their positions in liquefied natural gas, and Shell believes global consumption of the fuel will roughly double from now to 2025. Operating L.N.G. facilities are rarely offered for sale.

But the appeal of L.N.G. goes beyond rising world energy use, as the technology that creates the product — supercooling natural gas so that it can be transported by ship — is helping to turn natural gas into a globally traded commodity like oil.

There are still wide regional differences in natural gas prices, with North America by far the least expensive, Asia highest and Europe in the middle.

Partly through astute trading, Shell believes it will be able to squeeze more than $1 billion per year in cash from the new L.N.G. assets it is acquiring, according to a spokesman. Shell has roughly 8 percent of the global L.N.G. market, the largest among Western oil companies.

"Shell's worldwide L.N.G. supply position and customer base means we are uniquely positioned to add value to Repsol's L.N.G. portfolio," Peter Voser, Shell's chief executive, said in a statement.

For Repsol, the divestment is a significant step in its efforts to rethink its strategy and make up for the unexpected loss last April of YPF, the Argentine company that was nationalized by President Cristina Fernández de Kirchner.

It had been by far Repsol's biggest foreign asset, holding almost half of its proved reserves.

Repsol is seeking at least $10.5 billion in compensation from Argentina for the seizure of YPF. But even if the company wins an international trade ruling, it would be a struggle to get Buenos Aires to comply with it.

After the YPF seizure, which led to a plunge in Repsol's share price, Repsol announced last June that it was lowering its dividend payout and that it planned to sell up to €4.5 billion, or $5.9 billion, of noncore assets. The company said last year that it was aiming to cut as much as €9 billion of debt.

L.N.G. accounted for about 12 percent of Repsol's operating profit for the first three quarters of 2012, according to Bernstein, the research firm.

Repsol has also been under pressure to improve its debt situation in order to maintain its investment grade rating.

On Wednesday, the ratings agency Fitch said that Repsol's L.N.G. divestment "improves Repsol's credit metrics, but any positive rating action is dependent on the post-tax asset disposal proceeds of approximately €2.7 billion being fully utilized to reduce financial indebtedness."

It added that if Repsol ended up using the money to pay down debt rather than spending it or holding it on its balance sheet, a credit rating upgrade was likely.

For Shell, the deal includes Repsol's stakes in a major L.N.G. project in Trinidad and Tobago, as well as a smaller one on the coast of Peru. Those locations help fill out the company's global portfolio, as Shell did not have access to L.N.G. in the western Atlantic.

"This is a perfect complement to what we have," Maarten Wetselaar, Shell's executive vice president for its L.N.G. operations, said by telephone from South Korea. "We get a West Atlantic position and an East Pacific position. These were blind spots."

Once the deal closes, the company will be able to supply customers in Latin America from Trinidad rather than from Nigeria as it does now, and can then send its Nigerian gas to Asia, saving freight and earning higher profit margins.

Shell is also pursuing L.N.G. export projects in western Canada and on Elba Island, off Georgia in the United States. It is also considering setting up a plant that would transform the large volumes of cheap natural gas now available in the United States into liquid fuels.

“What Shell is trying to do is get a big set of L.N.G. supplies in order to cut shipping costs and gain flexibility,” said Iain Pyle, an analyst at Bernstein Research in London.

The deal, which also brings a fleet of specialized L.N.G. carrier ships, will add roughly 30 percent to Shell’s L.N.G. supplies. Greater volumes will mean that Shell will have more L.N.G. available to trade, a route to higher profit, rather than to use simply for fulfilling contracts.

Despite being a midsize oil company, Repsol had a bigger L.N.G. trading business than Shell. Macquarie Securities estimates that Shell will now have 6.6 million tons of L.N.G. to trade in its portfolio, or about 20 percent of its total volumes.

Shell last year reported $9.4 billion in net profit from its L.N.G. business.

Raphael Minder reported from Madrid.