CNOOC in China's biggest overseas deal

Oil, gas company to buy Canada's Nexen for $15.1b to tap North American market

DEALS

CNOOC Ltd has agreed to pay $15.1 billion in cash to acquire Nexen Inc, the Calgary-based oil and gas producer, in the biggest overseas acquisition 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 Nexen's closing price on Friday, according to its statement to the Hong Kong Stock Exchange on Monday.

Nexen's board has recommended the deal to its shareholders.

Nexen, whose assets include conventional oil and gas, oil sands and shale gas, will give CNOOC assets in Canada, the United Kingdom, West Africa and the Gulf of Mexico that produced 207,000 barrels a day in the second quarter, boosting the Chinese buyer's output by about 20 percent.

The deal is a second attempt by CNOOC to buy a large North American oil and gas producer after political opposition blocked the acquisition of 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. CNOOC will pay for the acquisition using existing cash funds and external financing.

"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."

The Chinese company is paying 8.84 times earnings before interest and tax for Nexen, compared with the median of 33.06 of 10 comparable deals, according to data compiled by Bloomberg.

The Beijing-based company will add 900 million barrels of oil equivalent reserves at $19.94 per barrel through the deal, according to a document posted on 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 340 million barrels of oil. CNOOC lost production from its largest offshore oilfield in the first quarter after the site was temporarily shut down.

BLOOMBERG

Federation warns of tough H2 for machinery sector

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INDUSTRY

This year will be the toughest for China's machinery industry since 2009, an industry leader said on Monday.

"The growth of the industry in the first half was much slower than we expected, and the second half won't be much easy either," said Cai Weici, vice-president of the China Machinery Industry Federation.

He made the remarks after the release of first-half figures for the industry, which accounts for nearly one-fifth of China's exports and imports.

The industry's output stood at 8.7 trillion yuan ($1.4 billion) from January to June, increasing 12.17 percent year-on-year, according to the China Machinery Industry Federation.

The growth rate was significantly lower than the 27.08 percent registered in the first half of last year.

Cai estimated that the industry's growth rate for the whole year will be 14 percent, down from last year's 25 percent.

He added that machinery exports are expected to rise 15 percent year-on-year, but the industry's profits are only expected to grow by 5 percent.

"Structural adjustment from low end to high end is the key to help companies get through this difficult time," Cai said.

"It is urgent that companies restructure as the government will not carry out massive stimulus policies such as in 2009."

The average price of machinery products fell in the first six months, with prices in 61 out of 142 product categories falling compared with a year ago.

Meanwhile, orders received by major companies in the industry declined 0.95 percent year-on-year, compared with 20 percent growth last year.

However, Cai said inquiries increased recently after the central government introduced a series of policies to boost economic growth.

Private companies performed better than their State-owned counterparts in the first half.

Private companies realized a total output value of 4.79 trillion yuan in the first half, an increase of 17.47 percent. The growth rate was 5.3 percentage points higher than the industry's average.

"Compared with State-owned enterprises, private ones are more sensitive to the market and they change their strategies faster," Cai said.

Private companies in the industry made a profit of 2.07 trillion yuan, up 16.73 percent year-on-year during the first five months, accounting for 49 percent of the industry total.

Exports of machinery products recovered recently, Cai said.

According to the federation, exports stood at $141.5 billion from March to May, an increase of 15.78 percent year-on-year. Exports in May reached $32.77 billion, a record high for any single month.

While Cai said Chinese companies still need to make greater efforts in terms of upgrading, he added some progress had been made.

China's automobile exports increased 40 percent during the first five months, much higher than the industry average.

Cai said this reflected China's progress in terms of high value-added products. Automobiles are categorized as machinery products.

WU HE / FOR CHINA DAILY

A worker at an electromechanical equipment workshop in Huaibei, Anhui province. The output of China's machinery industry increased 12.17 percent year-on-year in the first half of the year, much slower than the same time last year.