

Chevron set to buy Anadarko for \$33bn in shale, LNG push



Chevron Corp yesterday said it will buy oil and gas producer Anadarko Petroleum Corp for \$33bn in cash and stock in a deal that doubles down on its bet on US shale and propels the company into the ranks of the world's "supermajor" crude producers. The deal makes Chevron the second-largest major by crude production, behind Exxon Mobil Corp, up from fourth. It expands Chevron's role in two areas where US energy output is surging – shale from the Permian Basin of west Texas and New Mexico, and liquefied natural gas (LNG) – which have helped make the US one of the world's largest energy exporters. "Chevron now joins the ranks of the UltraMajors – and the big three becomes the big four," said Roy Martin, senior analyst at consultants Wood Mackenzie. "The acquisition makes the majors' peer group much more polarised. ExxonMobil, Chevron, Shell and BP are now in a league of their own."

US crude production stands at a record 12mn barrels a day (bpd), and the nation is the third-largest producer of LNG,

the super-cooled fuel that is seeing record demand as a cheaper, cleaner alternative for countries that still rely heavily on coal for power generation. Chevron's pledge to restrain expenditures has made it a favourite among energy stocks, with its shares up 13.8% this year. It plans to sell some \$15bn in assets over time to offset the Anadarko deal. Still, investors sent Chevron shares down 5.2% to \$119.44 yesterday. Chevron chief executive Mike Wirth called the deal a "great fit" for the company. "This is really about creating shareholder value," Wirth said in an interview. "It's a great combination.

That's what drives this." The deal is the oil industry's largest since Royal Dutch Shell bought BG Group in 2016, and it sparked speculation that other shale producers are in play. Shares of Apache Corp, which also has extensive acreage in the Permian Basin, rose 1.8%, while Pioneer Natural Resources Co jumped 9%. With oil prices surging this year, Chevron and larger rival ExxonMobil have been increasing investment in the Permian Basin, the most prolific shale oil field in the country. Their efforts coincide with a pull-back by the smaller companies that revolutionised the industry through advances in horizontal drilling and hydraulic fracking. They have had to curtail spending due to investor dissatisfaction with weak returns. Chevron, which already has 2.3mn acres in the Permian Basin, said the Anadarko deal would give the combined company a 75-mile (120-km)-wide corridor across the Permian's Delaware basin, on the Texas-New Mexico border. "We will now see Chevron emerging as the clear leader among all Permian players, both in terms of production growth and as a cost leader," said Rystad Energy head of analysis Per Magnus Nysveen, noting that Anadarko's acreage is in the "sweetest spot" of the Permian's Delaware Basin. Anadarko also has a Mozambique LNG project, part of one of the industry's largest planned current investments, which Wirth said he still expects to move to final approval "sooner rather than later" this year.

Expenses from that project are expected to reach \$4bn over several years. The tie-up with Anadarko adds to Chevron's deepwater investments in the Gulf of Mexico and gives it a stake in growing oil and gas production in the US Rocky Mountains in Colorado. At the end of 2018, Exxon and Chevron accounted for about one-fifth of Permian output, where producers pump around 4mn barrels per day (bpd) currently. IHS Markit expects it to hit 5.4mn bpd in 2023, more than the total production of any Opec country other than Saudi Arabia. "It will be a continuous shift toward larger companies in basically all segments of the shale industry," said Artem Abramov, head of shale research for Rystad Energy. Shares of Anadarko surged 32% yesterday morning, reflecting the 39% premium offered by Chevron compared to Thursday's closing market price. The \$65 per share offer was structured as 75% stock and 25% cash. The deal includes taking on \$15bn of Anadarko's debt.