Shell to buy BG in $47bn deal

The combination of Shell and BG will create a global behemoth in the LNG industry

Speculation is rife that Shell's $47bn takeover bid for BG will mark the start of a wave of mergers and acquisitions deals in the oil and gas sector, with some market analysts expecting companies such as Tullow Oil, Genel and Gulf Keystone to be potential targets. Shortly after the announcement, shares in BG rose by nearly 40% to close in on the bid valuation. The BG share price had fallen significantly in the past year following problems in Egypt and Brazil and the departure of its CEO Chris Finlayson nearly a year ago, after just 16 months in post – a situation further compounded by recent low oil prices.

Shell is understood to have based its valuation of BG on the assumption that Brent crude prices will recover from their current level of $58/b to $67/b in 2016, $75/b in 2017 and as much as $90/b by 2020. BG shareholders will receive £13.50 – split between £3.83 in cash and 0.4454 Shell shares – for every share they currently own in a deal that is designed to allow BG shareholders to own 19% of the new Shell company. Shell expects to generate $2.5bn of synergies a year from the deal, with around $1.5bn from reducing exploration expenditure and $1bn from improving efficiencies. The acquisition is expected to increase Shell's oil and gas reserves by 25% and its production capabilities by 20%. The deal is viewed by many as a potentially cheaper means of the company increasing its reserve base than expensive exploration, particularly in frontier areas such as the Arctic.

The merged entity will become the world's largest gas producer (11.56bn cf/d) ahead of ExxonMobil (11.15bn cf/d) and the world's seventh largest in terms of liquids production (1.706mn b/d). The deal is reported to be the largest in the global oil and gas sector in the past 17 years and the largest ever on record between two British companies.

Commenting on the acquisition, Shell CEO Ben van Beurden said: 'BG will accelerate Shell's financial growth strategy, particularly in deepwater and LNG – two of Shell's growth priorities and areas where the company is already one of the industry leaders... This transaction will be a springboard for a faster rate of portfolio change, particularly in exploration and other long-term plays. We will be concentrating on fewer themes, and at a larger scale, to drive profitability and balance risk, and unlock more value from the combined portfolios.'

Speaking to *Petroleum Review*, Mark Young, Senior Oil & Gas Analyst, Evaluate Energy, commented: 'A basic combination of the two companies' operations in the sector results in a global exporter of 31.4mn t/y of LNG as of year-end 2014, with expansion plans in place to increase that total to 71.5mn t/y by 2025. There is no guarantee this expansion figure will be met; in British Columbia in Canada, for example, the companies both have a multi-billion dollar project in the works for LNG exports. Completing both of these projects at these high costs is very unlikely, with BG's Prince Rupert project – the smaller of the two – most likely to fall by the wayside.'

He continued: 'In Trinidad & Tobago, as things stand, the combined entity will become the majority shareholder of the 15.1mn t/y Atlantic LNG export plant. The companies held between 20% and 35% interests each in the four trains of the Atlantic LNG plant prior to the deal announcement. Shell entered the Trinidad LNG sector in January last year when it completed the $4.1bn acquisition of Repsol's LNG business outside of North America.'

Meanwhile, the deal with BG has been reported as a potential issue for Santos in Australia. As Young notes: '[Santos] could potentially be left short of gas as it seeks to fulfil its LNG supply contracts. The company has been in long-protracted negotiations over gas supply for its Gladstone LNG plant from Shell subsidiary Arrow Energy's coal seam gas assets in Queensland, which could now fail completely with Shell perhaps likely to now favour exporting Arrow's gas out of BG's Queensland Curtis LNG export plant instead.'

Ben van Beurden, CEO of Shell (left) and Andrew Gould, Chairman of BG Group shake hands as the companies announce their takeover deal at the London Stock Exchange on 8 April 2015

Source: Newscast Online

Rumours of a takeover of BG in the face of falling share prices had been circulating late last year, with ExxonMobil mooted as a potential bidder