Shell's BG move is big on Asian gas

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In Shell's sights: QCLNG at Curtis Island, Australia

AS WELL as muscling into Brazil's deep-water oil play, Shell's $70 billion move on BG Group is a big bet on the expanding market for natural gas in the Asia Pacific region.

As the Anglo-Dutch supermajor takes over UK-based BG, it cements its dominant position in the global liquefied natural gas (LNG) trade, most of which flows into energy-hungry Asia.

The move is confirmation that Shell, along with some other members of the Big Oil family, firmly believes cleaner-burning gas will play a major role in meeting the energy demand of emerging economies, such as China and India. Before the merger was announced, BG was poised to become China's biggest LNG supplier with 8.6 million tonnes per year (t/y) committed by 2017. It also has a strong presence in India.

Still, Shell was always the biggest multinational company in the LNG business. Once the deal closes, it will be even bigger, controlling about 45 million tonnes per year of LNG supply by 2017-18 â€“ or roughly 20% of last year's output. The combined company with be a major LNG player, ranking a close second only to state-backed Qatar Petroleum as the globe's biggest seller of LNG. On top of this, the combined entity's LNG interests will be more than double the size of ExxonMobil's equity stakes.

The takeover re-energises Shell's LNG development pipeline, adding a leading US position, entry to East Africa, and new options to expand an already prominent presence in Australia and Canada, as well as an interesting position in Singapore – southeast Asia's emerging LNG trading hub.

It will gain access to BG's big gas discoveries offshore Tanzania – that will be sold into Asia via a proposed LNG scheme – and also BG's recently commissioned 8.5 million t/y Queensland Curtis LNG (QCLNG) export project in Australia.

The deal is expected to deliver $2.5 billion worth of synergies. A significant portion of those will be in Australia, where Shell has a large portfolio of coal-bed methane gas through its Arrow Energy joint venture with PetroChina.

Arrow has large amounts of uncontracted gas – some 6,400 petajoules (PJ) of proved plus probable reserves – enough to supply a single liquefaction train. And it recently abandoned plans to build its own LNG processing plant.

The merger could bring Arrow gas into QCLNG with a potential expansion a possibility, Graeme Bethune, chief executive of Australian-based consultancy EnergyQuest told *Petroleum Economist*.

A one-train expansion of QCLNG would be much cheaper than the first

Table 1: Equity share in liquefaction capacity

	2005	2010	2015	2020
Qatar Petroleum	16.21	46.19	50.96	50.96
Shell	10.78	19.67	44.40	48.97
Sonatrach	20.70	22.00	28.80	28.80
Petronas	18.83	19.48	26.36	27.86
ExxonMobil	6.98	14.55	20.18	21.43
Total	5.17	11.80	14.26	19.58
Chevron	1.98	2.72	9.50	18.33
Cheniere	-	-	9.00	18.00
BG	5.62	7.11	-	-
NNPC	4.66	10.36	14.29	14.29
Freeport	-	-	-	13.50
BP	8.71	14.19	12.49	12.49
Novatek	-	-	-	9.90
Mitsubishi	5.00	6.86	7.51	9.50
Woodside	1.98	2.72	6.55	7.67
ConocoPhillips	1.05	5.18	7.51	7.51
Inpex	-	0.93	0.39	6.67
Mitsui	2.65	4.73	4.52	6.52
ENI	5.21	6.86	6.43	6.43
Dominion	-	-	-	6.10
Pertamina	15.46	16.17	6.08	6.08
	130.99	**211.52**	**269.23**	**340.60**

Source: Tri-Zen

Deal throws down gaunlet to ExxonMobil

Martin Quinlan, LONDON: Shell has offered to acquire BG, to create a company with oil and gas production second only to that of ExxonMobil, with dominance of the world liquefied natural gas (LNG) business, and with particular strengths in deep-water operations. The two companies' boards have agreed on a cash-and-shares offer which values BG at a 52% premium over its recent share price.

The acquisition will add 25% to Shell's proved oil and gas reserves and 20% to its production, while giving the firm stronger positions in developing areas such as Australian LNG and Brazilian deep-water exploration. BG shareholders will own about 19% of the combined company.

Shell says it plans to restructure the enlarged company by selling $30 billion of assets over the years 2016-18. But it says capital spending will continue to be trimmed this year and next. Debt will be paid-down in and after 2016, and there will be a $25 billion share buy-back programme subsequently.

The enlarged Shell will have an oil and gas production of 3.7 million barrels of oil equivalent a day (boe/d), based on 2014 production, while ExxonMobil's output last year was 4 million boe/d. Shell claims cash-flow from operations will exceed that of ExxonMobil.

The enlarged company will have a powerful position in the LNG business, accounting for 18% of worldwide trade. Shell's LNG deliveries last year totalled 34 million tonnes and BG delivered 11 million tonnes, while world production was 246 million tonnes. Shell had 26 million tonnes of equity LNG production and BG had 7 million tonnes, while Shell operates six regasification terminals and BG operates four. Shell's chief executive, Ben van Beurden, described the acquisition as a "bold strategic move" which will allow a faster rate of portfolio change. "We will be concentrating on fewer themes, and at a larger scale, to drive profitability and balance risk", he said. It is reported that the acquisition was driven largely by van Beurden and BG's chairman, Andrew Gould.

BG had 12 years of strong growth under a previous chief executive, Frank Chapman, but has been troubled since he retired at the end of 2012. The company recruited Helge Lund, former chief executive of Statoil, who took over in February. It is indicated that Lund will leave when the acquisition is completed, early next year.

The acquisition, valued at $70 billion, is the industry's largest corporate transaction since the mergers of the 1990s which created ExxonMobil and the enlarged BP and Chevron. There have been rumours of other acquisition moves since the fall in oil prices, and ExxonMobil has stated that it interested in a deal. However, analysts say the high premium offered by Shell for BG will dissuade other parties from mounting a hostile bid.

Shell and BG have both been seeking to cut their exploration and production costs, particularly in costly but mature areas such as the UK North Sea – where Shell produces 90,000 boe/d and BG produces 105,000 boe/d. Shell says there is an "overlap" between the two companies' UK operations – and also in Norway, where Shell produces 160,000 b/d and BG produces 28,000 b/d. The enlarged Shell is forecast to sell assets in these areas.

But Shell will benefit from BG's production in Bolivia, India, Thailand and Tunisia, where it has no output at present. BG's operations in these countries yield 137,000 boe/d. ●

two trains. Also the gas transmission pipeline is sized for three trains, as are some of the upstream facilities.

"I would assume Shell is getting a good deal, particularly with the synergies," said Bethune.

Aside from the synergies, development costs and the Australian dollar are falling so a brownfield expansion might not be high cost, he added.

Globally, delays and cancellations of proposed LNG projects will trigger supply tightness around 2019-20, leaving Shell well positioned to take advantage, Singapore-based consultancy Tri-Zen told *Petroleum Economist*.

Aside from assets in Australia and East Africa, BG is the second-largest gas producer in Trinidad and Tobago and a significant shareholder in the 15 million t/y Atlantic LNG export scheme. Shell will hold 60% equity in the LNG project following its takeover of Repsol's LNG business last year and its merger with BG.

But, given the boost to its LNG portfolio, it seems unlikely that Shell will push ahead with BG's Lake Charles export project and Elba Island liquefaction trains in the US. Each company has also been eyeing British Columbia for an LNG export terminal. Shell leads a consortium of companies planning the LNG Canada project in Kitimat, which could cost up to $40 billion. While BG has proposed its own project near Prince Rupert, but late last year decided to pause work on it due to market uncertainty. It is likely BG's scheme will be sidelined.

Looking to the future

Clearly Shell recognises that gas is primed to become increasingly important in the immediate future of energy. Gas, which when burnt for power produces half the carbon dioxide that coal does, will likely overtake coal as the world's second fuel by the late 2020s.

Small and mid-scale LNG is also set to become increasingly dominant, creating new market opportunities in shipping, commercial road transport, railways and industry, particularly in Asia, reckons Tri-Zen. Innovation in the supply chain will be key and Shell is well placed for this.

For Shell, this is the second gas-focused deal it has struck in as many years. In early 2014, it bought Repsol's LNG business for $4.1 billion. Still, Shell is not alone betting on gas: BP, Total, Chevron and ExxonMobil are spending heavily on the fuel too. They are all hoping to position themselves to benefit from a trend in emerging markets, particularly in Asia, that favours gas over coal.

The deal could potentially trigger acquisitions of other gas-focused companies the size of BG or maybe smaller. Among the potential targets are Woodside Petroleum and Santos of Australia, Noble Energy and US-based Devon Energy.

Santos shares have fallen the most, but it has the lowest quality assets, with Shell the only big company with excess gas that could bolster Santos' Gladstone LNG project in Australia, say analysts.

Woodside could be an interesting target for Chevron while Australian junior Oil Search is good value with the best growth options.

Oil Search along with US-listed InterOil are focused on the emerging gas province of Papua New Guinea right on Asia's doorstep. Both could prove attractive to ExxonMobil or Total, which already have footprints in the Pacific nation. ●