

Nexen \$3.3 Billion Windfall Signaled With CEO Exiting: Real M&A

By Tara Lachapelle and Bradley Olson - Jan 12, 2012, Bloomberg

The departure of [Nexen Inc. \(NXY\)](#)'s chief executive officer is leaving the door open for a takeover that may reward shareholders with a \$3.3 billion windfall.

The Canadian oil and natural-gas producer that failed to find a buyer last year climbed the most in three months with this week's announcement that CEO Marvin Romanow was exiting immediately. Once worth as much as C\$22.8 billion (\$22.4 billion), Nexen declined [20 percent](#) during Romanow's three-year tenure and last month fell to 0.92 times book value, the lowest in at least 16 years, according to data compiled by Bloomberg.

While Calgary-based Nexen has faced setbacks with oil-sands projects such as its Long Lake operation in Alberta, it's now cheaper relative to earnings than 96 percent of North American oil exploration and production companies with market values greater than \$1 billion, data compiled by Bloomberg show. The \$9.4 billion company with oil and gas operations from [West Africa](#) to the North Sea may fetch at least a 35 percent premium in a takeover, said [Edward Jones & Co.](#)

"You've removed one more stumbling block with the CEO leaving," said [Timothy Parker](#), a Baltimore-based portfolio manager who oversees about \$4.5 billion in natural-resource stocks for T. Rowe Price Group Inc., Nexen's [largest shareholder](#). "It's cheaper than average and so there is appeal there for an acquirer because you could likely buy it at an accretive price. You could pay a good premium and it could still be accretive."

Davis Sheremata, a spokesman for Nexen, declined to comment on takeover speculation.

Nexen gained 1.1 percent to C\$18.30 at 9:45 a.m. in Toronto.

CEO's Exit

Romanow, who had worked at Nexen for 13 years and had been CEO since January 2009, was replaced by Chief Financial Officer Kevin Reinhart on an interim basis, the company said in a statement Jan. 9, without providing a reason for the exit. Gary Nieuwenburg, vice president overseeing Canadian operations at Nexen, also left. The shares gained 7.8 percent the next day, the most since Oct. 5.

Nexen, which was formed when [Occidental Petroleum Corp. \(OXY\)](#) combined its Canadian units into one company in [1971](#), lost about \$2.1 billion in market value during Romanow's tenure, data compiled by Bloomberg show.

Profit slumped in the third quarter as production fell below the company's expectations and it took a longer time to start a platform at its Buzzard facility in the U.K.'s North Sea. The Long Lake oil-sands project has lagged initial output estimates since it started operating in January 2009. Also, the oil producer's contract with Yemen expired last month after negotiations for an extension with the war-torn nation failed.

'Ton of Problems'

"They've stepped on the sharp end of the rake every chance they got," [John Stephenson](#), who helps manage \$2.7 billion, including Nexen shares, for First Asset Investment Management Inc. in Toronto, said in a phone interview. "They've had a ton of problems. So this was a decisive move, a bold move, and it certainly opens the door for a buyer."

Nexen's combined equity and net debt was [valued](#) yesterday at 3.5 times its earnings before interest, taxes, depreciation and amortization in the last 12 months, making it cheaper than 77 of the 80 other North American exploration and production companies with market capitalizations higher than \$1 billion, data compiled by Bloomberg show. The industry trades at a median of 8.7 times Ebitda.

Shares of Nexen also slipped to a three-year [low](#) of C\$14.63 on Dec. 14, the equivalent of an 8 percent discount to its book value, or the value of its assets minus liabilities. At 1.1 times [book value](#) as of yesterday's close, it's still cheaper than 91 percent of the industry, data compiled by Bloomberg show.

'Substantial Value'

"There is substantial value to be unlocked," [Lanny Pendill](#), an analyst with Edward Jones in [St. Louis](#), said in a phone interview. "It's a company that has a pretty poor operational track record. If you think about what the assets are worth versus where the stock is trading, there's a very large gap."

Nexen would demand a minimum of a 35 percent premium in an acquisition "because of how depressed the stock price is," Pendill said. That would equate to C\$24.45 a share, or about C\$12.9 billion -- C\$3.35 billion (\$3.29 billion) more than the company's current market value. A buyer would also have to assume C\$3.45 billion in [net debt](#).

T. Rowe Price's Parker said stockholders would want a bid "in the C\$20s" and would be "shocked" if investors turned down an offer higher than C\$25 a share.

While a slumping stock price led Nexen to consider options such as a sale last year, the company decided it wouldn't get a high enough premium and instead should focus on fixing problems at its Long Lake [oil-sands](#) facility, Romanow said at the company's investor day on Dec. 1.

Exploring a Sale

"We looked at selling the company," Romanow said. "We looked at selling major assets. We looked at setting up separate companies. We looked at every financial re-engineering that was done in our industry and in other industries to see if there was a way to generate some value for you sooner."

Nexen shares had climbed on takeover speculation in December 2008 when the FT Alphaville website reported that Total SA, [Europe's](#) third-largest oil company, was preparing a C\$38-a-share bid. A day later, the Times of [London](#) reported that Total had abandoned the plans.

While Nexen's discount relative to peers may draw takeover interest, buyers may be wary because of its diverse assets and locations and operational setbacks in recent years, particularly in the oil sands, **Sam La Bell**, an energy and special situations analyst at **Veritas Investment Research Corp.** in Toronto, said in a phone interview.

"People who are looking for bargains have been looking at Nexen because it is so cheap," **La Bell** said. "But the operational performance would pose a real challenge."

Nexen's Assets

Still, Nexen would give a buyer access to [Canada's](#) vast oil deposits, offshore production in the U.K.'s [North Sea](#), West Africa and the [Gulf of Mexico](#) and drilling opportunities in shale rock formations. Nexen [produced](#) the equivalent of 164,000 barrels a day of oil in the third quarter and

had reserves of 919 million barrels of oil at the end of 2010, according to data compiled by Bloomberg.

ConocoPhillips, the third-largest U.S. oil company, may be interested in Nexen as it plans to spin off its refining business this year, [Ted Harper](#), who helps manage about \$6.8 billion in assets for Frost Investment Advisors LLC in Houston, said in a phone interview. The Houston-based company has about \$6 billion in [cash](#) and near-cash items, data compiled by Bloomberg show. A phone call to the [ConocoPhillips \(COP\)](#) media line wasn't returned.

Chinese Buyers

Additional potential acquirers may include other cash-rich [oil companies](#) from [Exxon Mobil Corp. \(XOM\)](#) to [Royal Dutch Shell Plc \(RDSA\)](#), as well as companies in [China](#), according to T. Rowe Price's Parker. Exxon had [\\$11 billion](#) in cash at the end of the third quarter while Shell had [\\$19 billion](#), the data show.

Kimberly Brasington, a spokeswoman for Irving, Texas-based Exxon, and Kayla Macke, a spokeswoman for The Hague-based Shell, declined to comment on market speculation.

"As far as who could buy it, it could be any number of people," Parker said in a phone interview. "You've got a lot of big, major oils with a bunch of cash and balance sheets to handle a deal of this size, and you've got a lot of Chinese companies that might be interested."

Companies in China announced about \$12.9 billion worth of bids last year for overseas oil and gas explorers and producers, excluding terminated deals, according to data compiled by Bloomberg.

"I absolutely think the CEO leaving opens the door for a lot of possibilities" for Nexen, said Stephenson of First Asset. "The long and short of it is that the company lacks strategic direction, it didn't deal with its problems early and so a buyer might be interested because of valuation."

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