China vs The Rest - A New Era of Global Energy Dealmaking

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Executive summary

Keywords: reserve acquisitions; bid discount; oil and gas; mergers and acquisitions.

China's monetary and energy policies are playing an increasingly pivotal role in shaping asset prices across global markets. In the energy sector in particular, the impact of China's confidence is manifest in the intensity of competition for scarce resources and specifically in the prices paid for oilfields and corporate assets.

Our findings suggest that China seems to have learned from their high profile failure to acquire U.S. Company Unocal in 2005 and is now reviving an interest in global deal-making. China acquired more than ten percent of global reserves over the period 2006-2012, enjoying some deal pricing success in the process. Chinese companies are closing and consolidating deals, but importantly, they are doing them well. Prior studies of deal attributes suggest that China employs various approaches to command 'discounts' in energy sector transactions; executing oil for loans at a country level in state deals, or cash for equity acquisitions in private deals, often closing strategic acquisitions to their advantage.

Broader studies of Chinese 'Petronationalism', suggest that acquisitions are driven not only by commercial interests, but by a desire for energy security. The dual commercial and security implications of China's energy deal-making serve to make this a pressing and also interesting policy research area (with far-reaching consequences for competitors in the sector).

In this work the focus is on (comparative) Chinese merger and acquisition prices. We are interested in where China acquires reserves and whether it does so on competitive terms. Our results show China has been winning by outbidding in risky areas, particularly where a willingness to take on the risks of opening new exploration provinces has been backed by oil for Chinese loans. It is clear that one sustainable Chinese advantage has been their willingness to take on risky markets, it may be that China is using diplomacy and funding to neutralise these risks. Whatever the reason, risky provinces seemed not to hold the same fear for China as for other bidders.

As result, for global competitors the energy outlook for 2018 and beyond is changing. China's financial advantages may be diminishing as trade wars proliferate; Forex reserves are down to 3 trillion from 4 trillion. The costs of funds for China are increasing and their currency is losing relative strength against the dollar. Each of these are important in a dollar denominated commodity sector. However, it seems clear that Chinese energy companies will continue to expand their acquisitive policy, likewise, international companies will need to increase bid prices to compete and counter offer for energy and oil and gas assets.

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