Shell to buy BG Group for $70 billion

TAKING ON THE CULMINATION HISTORIC WAVE OF MERGERS

LONDON: Oil and gas company Shell has agreed to buy Britain's BG Group for 47 billion pounds ($69.7 billion) in cash and stock, in a deal that may signal a new wave of mega-mergers as the energy industry tries to adapt to lower prices.

Royal Dutch Shell said yesterday it will pay the equivalent of 13.67 pounds in cash and stock for each share of BG Group, 20 percent more than yesterday's closing price. The deal will boost Shell's oil production by 32 percent, including offshore projects in Australia and Brazil, and is a trigger for the biggest wave of takeovers in years, analysts say.

Other energy giants may follow suit as they look to boost growth through acquisitions after increased production in the US helped trigger a plunge in oil prices. The last wave of oil mergers took place in the 1990s, which saw Shell buy a controlling stake in the US oil giant Amerada Hess.

"We'll get the spin-off in three quarters of mega-mergers like the '90s," asked Chris Stadler, associate professor of corporate management at Warwick Business School in Britain. "One major merger isn't an indicator of cost pressure with no sign of the oil price recovery. Companies had got used to $100 or $120 a barrel, and many needed $60 to 65 to break even on such complex form of deals."

The international price of crude oil has plunged from over $115 a barrel last summer to a low around $45 before recovering slightly in recent weeks to trade at $58 a barrel yesterday.

The takeover of BG Group makes sense for Shell because it allows the company to replace reserves as fast as it can when exploration and production are being cut, and also gives access to the US shale boom. BG Group is owned by Stadler. Said the boards of both companies recommended that shareholders approve the deal, which they say will create a more competitive, stronger company amid the volatility of the oil market.

The deal could be worth as much as $2.5 billion a year, Shell said in a statement. BG shareholders own about 19 percent of Shell after the deal is closed. Combining the two companies will produce savings of about 2.5 billion pounds a year, Shell said in a statement.

"This is an incredibly exciting moment for Shell," Chief Executive Ben van Beurden told reporters. "It is a bold and strategic moves that will shape our industry." BG's Norwegian CEO Helge Lund was consistently absent from yesterday's press conference. Organizers said he remained at BG headquarters in Reading - a two-hour drive from London - in order to handle internal communication with the company's workforce. He will stay with BG until the deal is completed. However, said he was in a statement that BG would benefit from the takeover. "BG's deep water positions and strengths in exploration, liquefaction, and LNG, stopping and marketing will combine well with Shell's scale, development expertise and financial strength," he said. — AFP

Riyadh is targeting a budget deficit equal to 2.5% of GDP in 2015, the government has said, but analysts warn this is likely to be revised higher, as the kingdom faces a significant reduction in oil revenue.

"We could see the fiscal deficit rise to 3.5% of GDP this year and even more next year if oil prices remain weak," said Jadwa, a Riyadh-based consultancy. The company expects the kingdom to post a deficit of $106 billion this year, while public spending is expected to remain almost unchanged at $250 billion, the quarterly report said.

The kingdom faces a significant reduction in oil revenue, as the US shale boom has eroded the market share of OPEC oil producers. The government has already forecast a budget deficit of about 4% this year, but analysts warn this is likely to be revised higher, as the kingdom faces a significant reduction in oil revenue.

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The kingdom also faces a forecasted current account deficit of $23 billion this year, its first since 1998, after registering a $61 billion surplus last year.

A large chunk of the forecast deficit resulted from $53 billion in profit of King Salman having granted Saudi workers two months' pay for the year. The report did not take into account the potential impact of the deficit on the kingdom's fiscal and economic performance.

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