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The Winners Curse of Purchasing Anadarko

by Justin L. Lurie

A deal at any price is not a deal worth pursuing. Occidental Petroleum and Anadarko have vastly different trend lines and an overly leveraged purchase will pull Oxy in the wrong direction.

Previous to the announced deal(s), Anadarko stock hovered near their multi-year lows largely due to their five year $30BN capital expenditure resulting in 50% less proven reserves. During this same time period, Oxy spent $25BN with a 50% production increase and a dividend payout 6X larger than Anadarko.

On paper there is nothing wrong with a stronger and larger company acquiring a competitor, my profession and history strongly encourages it. But a deal must have appropriate terms even more than the final blockbuster price tag.

To finance the transaction Oxy will be leveraging Berkshire Hathaway's $10BN loan with onerous repayment terms of an $800MM annual dividend payment, pre-payment penalties, and stock warrants to purchase additional future shares. This is a wonderful transaction for shareholders of Berkshire, for their history of this type of transaction netted a $12BN profit from 700MM Bank of America shares during last decade's financial crisis.

At the accepted terms offered by Oxy, the purchase price is $56/barrel which is just 'in the money' this week, but represents the average WTI price for 2019 too. If prices regress to the 2017 average price of $50.84, this deal will be considerably upside down, and that is not including the financing bill due.

To generate additional upfront cash to help sweeten the deal for Anadarko, and to avoid Oxy shareholder voting requirements by limiting the issuance of new shares, Oxy is divesting their

African assets to French oil company Total. Whether the $8.8BN is a fair price or not, the strategy of placing all of their company's eggs in one Permian basket is fraught with risk. In the political age of the 'Green New Deal' and significant electoral political swings even here in Texas, is it wise to be so dependent on a single state regulator, and the substantial weight of the company's assets in a single country?

Wall Street of yesterday allowed significant debt for increased growth potential, today the tables have turned. Growth must be achieved with minimal debt, and must result into positive earnings for today's investors. Oxy's deal is not representative of the current trend.

Companies raised about $22 billion from equity and debt financing in 2018, less than half the total in 2016 and almost one-third of what they raised in 2012.

Oxy CEO Vicki Hollub has performed admirably over the last three years in her role. The company has held steady through the multi-year downturn, has not lowered their employment count, and deployed an industry leading 5.21% dividend yield.

Today, Oxy and Anadarko are of very similar market cap size, but they are headed in opposite directions.

Chevron recognized this deal was overpriced and shrewdly dropped out. An over-pay today, represents a new acquisition opportunity for competitors tomorrow. Stay the course Oxy, you're doing well without closing this deal.