NEWSWIRES
DOW JONES

CLM Analysis

HD **BG Group's Woes Stoke Sales Talk**

BY By Selina Williams

WC 963 words

PD 19 July 2014

ET 00:19

SN Dow Jones Top Energy Stories

SC DJTES

LA English

LP

In the last six months, BG Group PLC has gone from darling of the **oil** and gas sector to candidate for a breakup and, some suggest, a possible takeover.

While shares in rival European **energy** companies like BP PLC, Royal Dutch Shell PLC and Total SA have all risen healthily this year, BG's have stagnated following a litany of misfortune.

TD

In April, Chief Executive Chris Finlayson resigned after just 16 months in the job--leaving Chairman Andrew Gould in charge and searching for a successor. In January it took a combined $2.4 **billion** write-down on troubled gas assets in the U.S. and Egypt.

Once renowned for rapid growth, BG said in January that its output won't rise in 2014, the third time the **company** has cut its production forecasts since October 2012.

Now Mr. Finlayson's departure has reignited speculation over the future of BG, long seen as a potential takeover target. Its shares have fallen around 25% from their peak in April 2011--although the **company** is still worth nearly $70 **billion**.

Near-term, a significant pruning of BG's assets is on the cards, a process likely to excite both major **oil** companies and state-owned **oil** companies. BG's highly-prized **oil** assets off the coast of Brazil, its large **stake** in an Australian liquefied natural gas project and gas discoveries in Tanzania could be among those on the block.

"There are no sacred cows in the portfolio--we will look at everything," Mr. Gould said recently. Mr. Gould will provide the next **company** update on July 31 when BG presents its first-half results.

Under former chief executive Sir Frank Chapman, in charge from 2000 until he retired in late 2012, BG experienced years of strong growth, and inflated expectations.

Through successful exploration and **acquisition**, the **company** more than tripled its output in a decade from 1997, reaching 601,000 barrels of **oil** equivalent a day by 2006. Mr. Chapman predicted the **company** would produce 1 **million** boe/day by 2015. BG's promise of quick expansion helped it trade at a significant premium compared with peers Shell and BP, based on multiples of expected earnings.

But growing pains hit BG even before Mr. Chapman departed.

In October 2012 it slashed near-term production forecasts, chiefly because of problems at its gas fields in Egypt and low U.S. natural gas prices that had made it unprofitable to produce there. Earlier that year, it said investment in a project to produce gas in Queensland, Australia and liquefy it for export had run 36% over budget, costing an additional $5.4 **billion**.

Stories meanwhile emerged of Mr. Chapman's autocratic management style.

Mr. Chapman couldn't be reached for comment.

After taking over in January 2013, Mr. Finlayson scrapped the 1 **million** boe/day target for 2015.

But with problems continuing in Egypt, BG's production fell in 2013 to 633,000 boe/day--not much higher than back in 2006. Output could dip below 600,000 boe/day this year, according to the **company**, roughly a quarter of **oil** major Exxon Mobil Corp's annual production.

Mr. Finlayson also fell foul of Mr. Gould's desire for a more rapid action on BG's assets. Although disposals worth $4.8 **billion** were closed in 2013, the majority were under way before Mr. Finlayson took over.

BG's most valuable **oil** assets lie 186 miles off the Brazilian coast beneath a layer of salt in the Santos basin. The reservoir's high productivity requires less drilling and fewer wells, making barrels produced there among the industry's most profitable, according to analysts.

BG hopes to produce 500,000 boe/day net to the **company** from Santos by 2020, up from 57,000 boe/day currently. The Brazilian assets could be worth around $36 **billion** according to financial research **firm** Sanford C. Bernstein.

Any buyer in BG's **stake** would have to get along with Brazil's state-owned **oil company** Petroleo Brasileiro SA, the operator in all the blocks where BG has an interest.

"Brazil is...still one of the most interesting regions geologically and remains interesting for a number of parties," said a person familiar with the matter.

Still, with BP, Shell and other **oil** majors also shedding assets the market is tough for sellers. And with **Chinese** buyers stepping back as they digest recent acquisitions, BG could find speedy asset sales challenging, bankers say.

Elsewhere BG has stakes in big gas deposits off Tanzania in East Africa, with estimated gross resources there of 15 trillion cubic feet.

Some investors and analysts think BG should reduce its unusually high 74% **stake** in the Queensland Curtis gas project, which is due to start up in the fourth quarter. Typically in the **oil** and gas sector, operators hold a 35%-50% **stake** in projects they run. Mr. Finlayson said in February the **company** was considering selling pipeline and water treatment plants connected with the project, assets that could be worth $3.5 **billion** to $4.5 **billion** and might appeal to infrastructure funds.

BG declined to comment for this article.

Selling some assets could reassure investors that BG is worth more than its current market capitalization. It currently trades at a 34% discount to its net asset value, based on Deutsche Bank estimates.

Still, the higher BG's market value, the more difficult it could become for any potential suitor.

"The only **company** that could realistically buy BG is Exxon Mobil--it would be a stretch for Chevron and a big leap for a **Chinese oil company**, " said a second person familiar with the matter.

Write to Selina Williams at selina.williams@wsj.com

CO brgas : BG Group PLC | bp : BP PLC | fdp : Total SA | rnlp : Royal Dutch Shell PLC

IN iextra : Natural Gas/Oil Extraction | i1300005 : Support Activities for Oil/Gas | i13 : Crude Oil/Natural Gas | i1300014 : Natural Gas Extraction | i1 : Energy | i1300003 : Crude Petroleum Extraction

NS cadr : American Depository Receipts | cactio : Corporate Actions | m14 : Commodity Markets | ccat : Corporate/Industrial News | cnatrd : Natural Reserves/Resources Discovery | c182 : Asset Transactions | mcat : Commodity/Financial Market News | mnatgs : Natural Gas Markets | mcroil : Crude Oil Markets | c181 : Acquisitions/Mergers/Takeovers | nttwn : Today's Top Wire News | c17 : Funding/Capital | c171 : Share Capital | c18 : Ownership Changes | c24 : Capacity/Facilities | m143 : Energy Markets | ncat : Content Types | ndj : Dow Jones Top Stories | nfact : Factiva Filters | nfce : FC&E Exclusion Filter | nfcpin : FC&E Industry News Filter | ntop : Top Wire News | redit : Selection of Top Stories/Trends/Analysis

RE eecz : European Union Countries | austr : Australia | braz : Brazil | eurz : Europe | easiaz : Eastern Asia | fra : France | lamz : Latin America | neth : Netherlands | pacisz : Pacific Islands | samz : South America | uk : United Kingdom | weurz : Western Europe | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | benluxz : Benelux Countries | bric : BRIC Countries | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | medz : Mediterranean

PUB Dow Jones & Company, Inc.

AN Document DJTES11020140718ea7i00046

