Oil firms snap up opportunities

By DU JUAN
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NEWSMAKER

Chinese oil companies grabbed the opportunity to acquire overseas assets at a time when crude oil prices are low and foreign companies are short of money, energy experts said after China Petrochemical Corp and CNOOC Ltd announced two separate acquisitions on Monday.

"The acquisitions will help the country lower the risks when energy shortages become an urgent problem in the global market," said Lin Boqiang, director at the China Center for Energy Economics Research at Xiamen University.

CNOOC, China's largest offshore oil and gas explorer, agreed to pay $15.1 billion to acquire Nexen Inc, the Calgary-based oil and gas producer.

"Buying more overseas assets is a big trend for Chinese oil companies," said Liao Na, information director at energy consultancy ICIS C1 Energy. "Getting into the North Sea will help Chinese companies participate in the international oil pricing market, which is another important benefit for China in addition to the economic and energy significance of the acquisition."

"Meanwhile, Chinese companies can use the deals to gain experience with oil exploration technologies in the deep sea," she said. "The transactions also show that companies in the international oil exploration market now have a higher acceptance level for Chinese companies."

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LIAO NA
INFORMATION DIRECTOR AT ICIS C1 ENERGY

China Petrochemical Corp, the nation's biggest refiner also known as Sinopec, will spend $1.5 billion for a 49 percent stake in Talisman Energy Inc's UK unit, which allows the company to gain access to oil and natural gas fields in the North Sea.

The UK subsidiary of Talisman has stakes in 51 North Sea oil and gas fields covering around 1,800 square kilometers and is the operator in 35 of them. The company said it will launch its North Sea operations through the transaction.

"The project, which has mature output and cash flow, has provided a good opportunity for Sinopec to participate in the North Sea energy market amid the background of the current financial crisis and money shortage in Europe," the company said. "China's overseas acquisition strategy is getting mature."

The deal was the second big investment involving a Chinese oil company and a Canadian energy producer on Monday.

In addition, the deals are also beneficial to the companies due to the high political risks of oil exploration in Africa and the Middle East, Lin said.

Oil prices are expected to continue rising, so the deals can shield the companies from the risks of increasing costs for oil exploration operations in the North Sea, Lin added.

Car maintenance becomes big business in China

By CAI XIAO in Shanghai
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AUTO

Global auto-maintenance and parts companies are firing on all cylinders as they seek to tap the potential of China's after-sales services market.

The number of automobiles in the world's second-largest economy was more than 106 million by the end of 2011, an increase of 16.4 percent year-on-year, according to data from the National Bureau of Statistics.

Meanwhile, revenue in the Chinese automotive after-sales services market, which includes car maintenance, repairs, parts, modification and renting, is expected to be more than 400 billion yuan ($62.6 billion) by the end of 2012, according to a report on People.com.

One company that entered the burgeoning market early was Germany-based Wuerth Group, a top supplier of automotive maintenance supplies and a presence in China since 1994.

"Our automotive business grew well in the first half of this year, a rise of nearly 10 percent year-on-year, and this is quite a good development even as car sales are dropping," Christoph Ladurner, Wuerth China CEO, told China Daily.

Wuerth is aiming at annual sales of 2 billion yuan in the automotive sector, he said.

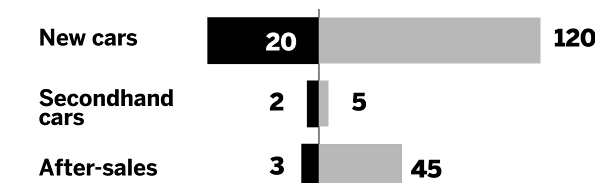
Wuerth's global sales reached 9.7 billion euros ($11.74 billion) in 2011, of which 500 million yuan ($78.28 million) came from the China market with a growth of 29.22 percent. Wuerth's automotive division accounted for about 30 percent of its total sales.

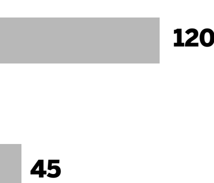
Ladurner said that while Europe and the United States are struggling with their respective economic woes, China's economy and purchasing power are strong.

AN XIN / FOR CHINA DAILY

An auto mechanic repairs a Volkswagen car in Nanjing. The number of automobiles in China was more than 106 million by the end of 2011, an increase of 16.4 percent year-on-year, according to data from the National Bureau of Statistics.

CHINA'S AUTOMOBILE INDUSTRY FIGURES





Source: CEBM Group Ltd

FENG XIUXIA / CHINA DAILY

"The after-sales service market is looking for solutions, not just products," Ladurner said. "The market means security for drivers and car owners, so it is important for us to give know-how to customers."

He said that as "4S stores" — so named because of their sales, spare parts, service and customer-satisfaction surveys — have become useful to car owners, Wuerth has played a bigger role in how they are run.

In 1994, Wuerth opened its first Chinese company in Tianjin. The network now includes more than 100 cities in China.

"Now we are playing in almost every region of China, which is our strength. We hire local people to serve local 4S stores," he said. And because Wuerth is a family enterprise, creating a family atmosphere for its workers is important, and Chinese culture is appreciated.

Ladurner said that Wuerth's brand is its biggest value, and informing customers of its premium quality is a priority. To that end, Wuerth has sponsored China's men's national basketball team and the China Touring Car Championship.

Also taking advantage of China's growth in auto care is Tyreplus, an automotive maintenance workshop chain set up by global tire manufacturer Michelin. Tyreplus has more than 730 workshops in China, and its five-year target is to double that.

"Although the growth of China's economy may slow this year, the after-sales service market keeps increasing," said Liao Chuhang, a director at Tyreplus and a distribution development manager at Michelin China.

Liao said more car owners understand that not all their cars' problems are serious enough to require a trip to a 4S store. More car owners are choosing other auto-maintenance options when their vehicle warranties expire, he said.

Liao said Michelin entered China early in 1988 when it set up its first office in Hong Kong, and drove into the mainland market in 2003.

Liao said Tyreplus' 14 main services, including washing, tire replacement and oil changes, offer customers convenience.

"Apart from 4S stores, the network Tyreplus developed has been the largest in China among car-maintenance workshops, and the market is still fragmented," Liao added.

Meanwhile, the market for automobile service continues to expand. About 20,000 4S stores were in China in April, and that number will grow to about 30,000 by the end of 2015, according to the State Administration for Industry and Commerce as quoted by the Beijing Morning Post.

7-Eleven plans expansion in provincial capitals

By WANG ZHUOQIONG
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INVESTMENT

Seven-Eleven Beijing Co Ltd, the local offshoot of retail giant 7-Eleven Inc — which claims to be the world's largest convenience store chain with 46,000 stores in 16 countries — is planning a major expansion program in regional capitals across China.

Liu Yue, its vice-president, told China Daily the company is opening new stores in Qingdao, Shandong province, in November, and also eying more locations in provincial capitals including Wuhan, Chongqing and Changsha.

"We want to go into one or two places a year," Liu said. "The market is huge. But we are not going to go too fast. We need to prioritize and find the best partnerships."

According to analysts, rapid urbanization in China has created a big market for the convenience store culture, which is dominated by foreign players.

There are 151 Seven-Eleven stores in Beijing and 53 in Chengdu, operated by Seven-Eleven Beijing.

There are also 99 licensed Seven-Eleven convenience stores in Shanghai run by Uni-President Group, and 549 such stores in Guangdong province in South China managed by Dairy Farm of Hong Kong, the pan-Asian retail group.

Japanese companies also play a major role in the convenience market in Asia.

Japan's Lawson Inc, for instance, has more than 300 stores in Shanghai, and has expanded its presence in Chongqing and Dalian.

Japan's FamilyMart Co Ltd launched its presence in Shanghai in 2004 and has vowed to increase to 8,000 stores by 2021.

Though the concept of the "corner shop" is not new in China, many in the past have been extensions of local supermarkets or family-run small businesses, said Chen Lei, a retail analyst at China Galaxy Securities.

He added there are huge opportunities in the country for convenience stores as supermarkets and hypermarkets have slowed their growth in major cities.

"People with a rising income nowadays want variety and convenience, more than affordability," Chen said.

Foreign-style convenience stores are increasingly being opened adjacent to central business districts, offering a clean look and layout, and ready meals — which, in the case of Seven-Eleven, come with a operational manual so they taste no difference in any store and are one of its most profitable items.

According to Liu Yue, almost 90 percent of the materials going into Seven-Eleven's meals are ready to eat before being delivered to the stores, with assistants only needing to warm them up — a massive attraction of the Seven-Eleven business model.

Despite the weakness of a short shelf life, the stores also offer customers the opportunity to buy other products to go with their meals, such as cold drinks and snacks, which generate much higher profit margins, he said.

In addition, services such as helping consumers pay for their water and electricity bills are adding to the stores' appeal.

Chen, however, said that some convenience stores are struggling to improve often razor-thin profit margins.

"They are very vulnerable to high rental costs, logistics and labor costs. Many newborn businesses are killed in their infancy," he said.

He said he was pessimistic about their appeal in smaller cities where residents are more price-sensitive.

Their logistic coverage and location density, too, must reach a certain level to allow profitable operation, Chen said.

While many convenience stores allow licensing and franchising, Chen said it takes a long time and a large investment to make profits.

CNOOC's takeover of Nexen expected to open two-way street

By REUTERS in Ottawa, Canada and JOSEPH BORIS in New York

MERGERS

The friendly $15.1 billion bid by CNOOC Ltd for the Canadian energy company Nexen Inc gels with the Canadian government's pleas for foreign money to develop its costly oil sands of northern Alberta, according to industry experts, giving it a very definite chance of winning approval.

Reacting to what is likely to become China's largest overseas acquisition to date, the Canadian government has said only that it would review the bid by CNOOC based on its laws on foreign investment.

But lawyers, analysts and insiders say there are good reasons for the deal to go ahead, and few reasons to block it.

"It so far appears to be a mutual two-way street," said Oliver Borgers of law firm McCarthy Terault LLP in Toronto.

15.1
billion dollars
CNOOC Ltd's bid for the acquisition of Nexen Inc

"Canada has made it clear that it is looking for Chinese investment ... And China is now in a way reciprocating that interest by investing in a Canadian company.

"It appears to want to do a lot for that Canadian company in terms of increasing its size, its footprint, its presence globally, all of the things that would be music to the ears of the Canadian government."

Approval of the deal would help restore a Canadian foreign investment climate that the government dented in 2010 when it rejected a $39 billion attempt by Australian miner BHP Billiton Ltd to buy fertilizer maker Potash Corp.

The Conservative government said the Potash takeover would not bring a net benefit to Canada and vetoed the deal.

But Potash Corp was a huge player — and a big employer — in the politically significant province of Saskatchewan, while Nexen's assets are far more widely distributed around the world.

Unlike the Potash offer, in which Saskatchewan's premier voiced strong opposition, contributing to its demise, Nexen's home base of Alberta appeared enthused by CNOOC's play for the company, saying its oil sands assets require major investments.

"Today's potential transaction is further evidence of the vital importance of Alberta's oil sands to meet global energy demand," said Alberta Energy Minister Ken Hughes in a statement.

"Foreign investment benefits Albertans, and Canadians, putting Canadian firms in a better position to compete globally."

One Toronto-based legal expert on foreign investment laws said CNOOC is making all the right noises by saying it is going to keep jobs in Canada, make Calgary one of its international headquarters and list on the Toronto Stock Exchange.

"This makes the political climate a little easier," said the expert, who asked not to be named. "On the BHP deal, I'm not sure there was enough forethought given to the political landscape."

Nexen is active in Colombia, Yemen, the North Sea and the United States as well as in Canada, and the majority of its production and cash flow come from outside Canada.

"This is a friendly deal ... there is a great deal of forethought given to the kind of presence in Canada that the government is seeking," added a source close to the deal.

"The (Canadian) government tends to look for generation of economic activity in these deals. If that's the gauge — generation of activity and development — then this is a pretty compelling proposition."

Canadian Prime Minister Stephen Harper went to Beijing in February, partly in a bid to sell Canadian oil to China, and he stressed the need to diversify markets and reduce reliance on the US.

Without foreign money, development of the oil sands would lag, the Canadian government says.

Even so, Chinese investment in Canadian energy firms is sensitive politically.

The deal is subject to two separate Canadian reviews, from the Competition Bureau and from Industry Minister Christian Paradis, who must decide whether to permit the deal or block it, either on national security grounds or because it is not of "net benefit" to Canada.

Peter Morici, professor at the Robert H. Smith School of Business — University of Maryland and a hawk on China's trade policies, said that Canadians have always been worried about American influence and American hegemony, but that "they'll worry a lot more about China being dominant than they ever did the Americans".

Shares in CNOOC fell the most in two months in Hong Kong trading on concern China's largest offshore oil and natural-gas explorer is overpaying in the $15.1 billion acquisition.

CNOOC shares dropped 4 percent to HK$14.82 ($1.91), the most since May 7, while the benchmark Hang Seng Index slipped 0.8 percent.

The transaction, including $2.8 billion of net debt, is 20 percent more than the $14.9 billion value of Nexen's assets, based on the Calgary-based company's proven and probable reserves, said Laban Yu, an analyst at Jefferies Hong Kong Ltd.

He said that CNOOC is paying a premium to boost China's energy security and avoid repeating its failed $19 billion bid for California-based Unocal Corp in 2005.

Meanwhile, the Nexen takeover is already drawing notice in US Congress, where Republicans have been pushing US President Barack Obama's Democratic administration to approve the Keystone XL oil pipeline from Canada.

Representative Lee Terry of Nebraska, of the House Energy and Commerce Committee, has presented a bill said to allow construction of the pipeline without a required "presidential permit".

Keystone XL was proposed as a 1,700-mile (2,735-kilometer) pipeline stretching from Alberta's tar sands to the US Gulf of Mexico coast.

Pipeline sponsor TransCanada Corp can't proceed unless the project gets a green light from the Obama administration to build across the US-Canada border.

The US State Department has said it will decide by early 2013 whether to approve TransCanada's plans for the northern portion of the pipeline.

Keystone supporters have argued that Canada will look for alternatives — including possible deals with Chinese energy companies — to shipping its oil from the tar sands if the US doesn't give permission for the pipeline to proceed south toward the Gulf.

Opponents, who say the pipeline's environmental risks outweigh the relatively small number of jobs it will create, argue that any Canadian oil flowing south will only be exported overseas.

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