

Nexen cnooc  
company analysis  
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## **Nexen/Cnooc Company Analysis Essay Sample**

Nexen is an oil & gas exploration and production company that operates out of Calgary Alberta, Canada. They are a well-run, profitable, and responsible company that operates in 7 countries and does both onshore and offshore drilling for conventional oil & gas, shale gas, and oil sands. Their board of directors has recently unanimously agreed to a \$15. 1 billion buyout by China National Offshore Oil Company (CNOOC), which is currently under review by the Canadian government. Nexen employs a knowledge-based workforce of highly skilled workers and uses state of the art technology in the oil & gas exploration and production industry. However, the combination of the small number of workers required to operate an oil & gas production facility, combined with the requirement of a highly skilled workforce to operate and maintain the facility is enough to recommend that our country not allow Nexen to set up operations in our country. Company description

Nexen is a Canadian based oil company whose headquarters are in Calgary Alberta. They started operating in Canada in the oil sands in northern Alberta. Since its inception in 1971 the company has expanded internationally to on-shore drilling in Yemen, and off-shore drilling in the North Sea of the UK, the Gulf of Mexico, West Africa, as well as Poland and Columbia (FP Advisor). Nexen explores, develops, and produces in three principle businesses within the Oil & Gas industry, conventional oil and gas, shale gas and oil sands like those found in northern Alberta. In July 2012, China National Offshore Oil Corporation (CNOOC) placed a bid to buy Nexen for \$15. 1 billion dollars, which is the largest foreign acquisition made by a Chinese company. Forbes ranks Nexen 799th on its 2000 global leading

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companies list, and attributed its market cap at around \$10.22 billion and annual sales of \$6.35 billion (Forbes).

The company has just over 3,000 employees operating in seven countries around the world. Nexen reported operating revenue of \$6.341 billion at the end of the calendar year in 2011, which ranks them 5th among Canadian oil & gas companies (FP Advisor). A troubling aspect for Nexen is the fact that they reported earnings per share of \$1.32, down from \$2.28 the previous year, and a drop in percentage return on equity to 4.63%, down from 7.02% in the same time period. Furthermore, on September 30th 2012, they reported that earnings per share had dropped further to \$0.71 earnings per share and their net income attributed to equity holders had dropped from \$697,000 to \$382,000 in the same period (FP Advisor).

The ongoing story of whether the Canadian government will allow to the \$15.1 billion buyout of Nexen is a major question mark for Nexen and CNOOC, as well as investors. The Canadian government is worried about foreign state owned enterprises (SOE's) taking over important Canadian companies in key industries such as oil & gas production. Nexen's board of governors has unanimously accepted the offer as the company would benefit from the increased capital and resources provided by the Chinese giant. However the main issues raised by the Canadian government are making sure that SOE's like CNOOC follow the rules of the Canadian market place and have "transparency, disclosure, and adhere to Canadian Law" (Financial Post).

There is concern over the efficiency of state run companies, as well as the issue of Canadian national security. These are all issues that the Canadian government is wrestling with and this is something that our country should

follow closely if we are to allow Nexen/CNOOC foreign direct investment in our country. These are all issues we will have to assess while making our decision.

### International strategy

Nexen's main industry consists of exploring, developing and producing natural gas, crude oil, shale gas, and oil sands. They actively are looking for oil & gas hot spots around the world as their current off shore production facilities in Western Africa, Poland, Columbia, the Gulf of Mexico, and the North Sea in the UK, as well as onshore drilling in northern Alberta and Yemen (Nexen). The company employs numerous petroleum engineers who examine geological samples to determine if there are oil & gas properties to be developed and produced around the world. They concentrate their efforts in areas that are known hot spots and actively search for new areas around the world as they try to gain a first mover advantage in a new oil region. They strive to operate successfully through strong leadership, talented employees, and cutting edge technology, as well as working collaboratively with their stakeholders (Nexen).

The company's closest competitors are Canadian Natural Resources Limited, EnCana Corporation, Talisman Energy Group Inc., and Canadian Oil Sands Limited. One of the company's major assets is the research and development of state of the art technology to reach and unlock gas & oil deposits. They implement the use of hydraulic fracturing technology to unlock unconventional gas assets, are able to drill up to 34,000 feet deep into the Gulf of Mexico to access oil deposits below the gulf floor, and implementing gasification technology which uses steam to separate oil

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deposits from the sand in the northern Alberta oil sands (Nexen's way). The company has been successful to date, however their lack of resources and capital has limited their growth and expansion, as well as the \$4.3 billion debt that they currently have (Financial Post 2). This is why the buyout by CNOOC is an important factor for the company moving forward, as the Chinese giants would provide the company with the capital it needs to develop and produce more sites in northern Alberta, as well as their other locations around the world and give them the ability to explore and develop other regions as well. Marketing approach

As stated on the Nexen website, Nexen strives to create value by "trading and marketing proprietary and third-party crude oil, natural gas, liquids and electrical power" (Energy Marketing). Their marketing strategy strives to provide competitive pricing on all commodities that they produce, provide market intelligence that supports their upstream operations, and give producers and consumers better value and service. As well as capitalize on market opportunities through physical trading, and enhance contracts and physical assets that they own (Energy Marketing). Nexen is an upstream manufacturer in the oil & gas production sector. This means they operate in the field, meaning they explore for crude oil and natural gas, by drilling down to oil & gas deposits and then bring them to the surface. They then connect lines to the wells, which transport the unrefined product to processing plants and refineries (Industry Canada). These are oil & gas equipment service companies who buy the unrefined oil & gas from Nexen and produce it for the end consumers.

These companies consist of Canadian companies like Husky Energy, Imperial Oil, Syncrude and American companies like Exxon Mobile, Shell Oil Company and Chevron Corporation among others. The distribution channels are direct as these pipelines in North America deliver the unrefined oil & gas directly to their consumers. Because of this, their channel length is short in North America and they are able to provide their product to their consumer quickly and efficiently. However in areas like West Africa it is a longer distribution because the channel length is longer as there isn't the same kind of infrastructure for oil & gas companies so it is more costly to transport the products to a distribution network. Finally the process of upstream oil & gas production is very standardized within the respective methods; oil sands, shale gas, and conventional oil & gas. This allows skilled workers to implement the same process no matter where in the world they are, and helps lower the cost of extraction as an experienced engineer can set up and start drilling with relative efficiency. Logistics approach

Nexen is in the oil & gas extraction and production business so they choose locations based primarily on one aspect, whether or not there are accessible oil & gas deposits that can be extracted efficiently and economically. However this is not the only factor they look at when assessing a location for drilling. Outside of Canada, they need to be careful which countries they do business in as some are not as conducive to the oil & gas industry, or foreign direct investment. Some countries do not possess the necessary infrastructure to provide profitable oil & gas extraction. Furthermore some countries use barriers to protect home country companies such as tariffs and tax's.

Nexens buzzard facility in the North Sea of the UK is the company's most successful plant and has made them the second largest producer of oil in the North Sea. They have been able to produce 62, 000 barrels of oil per day at this site (net to Nexen) and because of the resource rich are have planned a new site facility that they have dubbed The Golden Eagle development and they believe that it is the biggest discovery in the area in over a decade. They expect to start producing oil by late 2014 (Conventional Oil & Gas).

Nexens process is a fairly standardized one and they are able to implement their own technology for extraction of the three types of oil & gas development that they produce, therefor the main factors for Nexen are firstly the existence of oil & gas deposits in a region, secondly the existence of a viable infrastructure to transport and maintain production, and finally the business environment within a country such as a stable government that is pro foreign direct investment, and has initiatives such as tax breaks as well as a lack of barriers to entry. HRM approach

Nexen believes that their competitive advantage lies in their knowledge-rich talent at the top and mid-levels of their company. Nexen uses an employee survey, which it has done since 1999, to improve its human resources practices. They provide employees with a survey that asks them to indicate where the company could improve as well as what they desire from their work experience. The most recent report has indicated that employees want to see improvements in performance management, career development and how the company communicates performance and goals (Employee Relations). They have helped improve performance management by establishing measureable goals, providing increased training at all levels of

the organization, and making sure management complete performance appraisals and then communicate them with employees. They have helped employees with career development by implementing a technical talent framework which helps accelerate the development of technical staff, and helped improve middle management through a partnership with the Saïd Business School at Oxford University. Finally, they have improved communication by providing employees a hand book of the company's goals, direction and strategies called Nexen's Way (Employee Relations).

Nexen has also made a concerted effort to provide employment opportunities for Canadian Aboriginals by providing them with summer student employment programs and by visiting aboriginal communities and providing scholarships to aboriginals as to build capacity for educational success. Nexen has stated that although they strive to serve aboriginal communities it is not a 'one way street' as "Nexen also benefits through what we learn from the diverse cultures of the aboriginal people" (Employee Relations). This factor would be a positive one in our country if they strive to help the people of the surrounding area with employment opportunities as well as increased educational opportunities to native residents. Summary

Nexen is profitable and responsible oil & gas exploration and production company that has seen its stock fall in the past year. They have been unable to deal with their debt which sits at \$4.3 billion as they simply do not have the resources nor the capital to expand further. The \$15.1 billion buyout of Nexen by China National Offshore Oil Corporation (CNOOC) has been unanimously approved by Nexen's board of directors but is currently awaiting approval by the Canadian government as it reserves the right to

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stop any foreign buyout of a Canadian company in important industry's and has said the deal has to be a 'net gain to Canada'. The Canadian government is believed to be requiring certain stipulations if the deal is to be accepted, such as requiring that CNOOC keep 50% of the Canadian management on for at least five years and making Calgary the head of their North American operations, among others. A decision on the buyout is expected on the 8th of December, 2012.

Nexen is a well-run company that employs a knowledge based, highly skilled work force for a majority of its positions. They have been a profitable company for over 40 years and have done so by being a socially and environmentally responsible, as well as relying on state of the art technology, such as gasification technology in the oil sands, along with a highly skilled workforce to gain a competitive advantage. They have achieved a 45% success rate in commercial exploration in the last two calendar years, which puts them in the top 20% of all oil & gas explorers worldwide (Exploration). They have been generous and fair to workers through their transparency and HRM with tools like the employee survey's, which seek to improve the working environment by asking employees to what they would improve in the company.

However, the company employs just over 3, 000 people total between the seven countries it is currently operating in. Furthermore, the company is in a knowledge based industry that requires highly skilled workers and for us, a developing country, we simply don't have the kind of workers that would be hired by Nexen should they be able to set up a production facility in our country. Also, they bring most of the workers in from outside the country, as <https://assignbuster.com/nexencnooc-company-analysis-essay-sample/>

it is a highly expensive and knowledge based industry they need people with a lot of experience as to help the operations run smoothly and efficiently.

The oil & gas that Nexen extracts and then ships to oil & gas producers would leave our country as quickly as it is extracted, this does not help employ our citizens nor does it help raise the standard of living. Nexen would simply be using our country for our oil & gas deposits and when it is all gone, so too will the company. Conclusion

The combination of the small number of workers required to operate an oil & gas production facility, combined with the requirement of a highly skilled workforce with high levels of experience in the field to operate and maintain the facility is enough to recommend that our country not allow Nexen to set up operations in our country. As Canada is doing currently by assessing the 'net gain' to Canada in terms of whether or not it will allow CNOOC to buy Nexen, we too must assess whether or not there is a net gain to our country. Nexen is a well-run, responsible company, however we need to bring in companies that are going to provide jobs to our citizens and, in turn, raise the standard of living in our country and Nexen doesn't fit that description.

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