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The M&A risk analysis of china's oil enterprises--takes CNOOC's acquisition for unocal as an example

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Abstract. It has been more than 30 years since reform and opening up, China's economy continues to grow. Especially in recent years, our GDP is growing at close to 7%, which provides the enterprises a better macroscopic development environment in our country. However, long-term extensive economic development mode consumes immense amount energy. Because China has proven oil reserves and production cannot meet the rapid growth in demand, and to face the world energy market for petroleum resources, the national oil security has become a crucial research topic.

1 China's Oil Cross-border M&A Risk Analysis

1.1 China's oil Enterprise cross-border M&A risk assessment

1.1.1 The risk of preparation stage of M&A

Political risks are decided by the particularity of oil. First of all, the risk of the host country' political environment. On the one hand, whether the political situation of the host country is stable or not, whether have ethnic conflict, war, and diplomatic situation of the host country are all problems which should be considered in the early stage of the M&A. On the other hand, the risk of people irrational speech. The cross-border mergers and acquisitions of Oil often involve the capital in a large quantity and special targets.

1.1.2 The risk in the implementation stage of M&A

Financial risks are main risks during the implementation of the M&A. Financial risk refers to the improper operation of target enterprise valuation, M&A financing; the respect such as consolidation makes the company financial situation worse, which divided into the risk of payment, the risk of exchange rate changes, and the risk of financing. Equity transaction will increase the risk of mergers and acquisitions, because the share price will change as the situation of the operation of the M&A enterprises, if the company performs worse, so the capital of M&A countries will shrink. Hybrid acquisition involves a long term, the longer time limit, the unforeseen situation will arise, more possible, mergers and acquisitions will encounter greater risk. The risk of exchange rate. Oil production cost is becoming higher day by day at present, the financing risk could increase.

1.1.3 The risk in the later period stage of M&A

M & A is a long-term and arduous task. The risks of the operation and management and the risk of cultural integration in the latter part of M & A will also affect the success or failure of M & A. M & A is just the beginning of the real transaction. They hope that after the integration of the enterprise to obtain economic and technological level of improvement, the original staff and customers can accept the new owner, to achieve a win-win situation. If the success of business integration, through the operation of the role of leverage, will make the enterprise sales revenue, profits, brand image. On the contrary, if the M & A business integration failure, not only lead to early efforts to burn, but also makes the two sides of the enterprise sales revenue decline, profit decline, operating efficiency.

1.2 The main risks in the M&A

Mergers and acquisitions is a long-term and arduous task, the risk of operating management and the risk of culture integration in the late acquisition of risk can also affect the success or failure of mergers and acquisitions and at the end of the deal, the ending of M&A just is the beginning of the real deal. They hoped that after fusion can make the enterprise to raise the level of economic technology, the original employees and customers also can accept the new owner, achieve a win-win situation. If the integration of enterprise management is success, by

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the function of operating leverage, will make the rising of sales income, profits and brand image. Otherwise, if the business integration is failure, not only can lead to fire early efforts, but also makes the decline of the enterprise sales revenue, profits and business efficiency.

1.2.1 Political risks

The first is the political risks in the host country. In the traditional economic activities, the seller tends to accept the buyers who quote a higher price. However in this case, CNOOC, quoted $18.5 billion, were lost to Chevron with $17.1 billion. Why CNOOC offers nearly higher than $1.4billion, but failed to Chevron. The political factor is a significant reason. In this case, considering the national security, America rejected the transoceanic offer. In the process, America political consensus gave a high press to CNOOC. The direct expression is that the congress asked the government repeatedly to recheck the cases about the national security.

1.2.2 Financial risks

Financial risk is the main risks during the implementation of M&A. It refers to a deterioration of financial situation caused by improper operation on the target enterprise valuation, financing and integration. It is a default risks that cannot pay principal and interest on the maturity. Its main performance is giving a higher or lower price on the target enterprises lead to opportunity lost, financial distress and financial integration failed. First is the financial risk in the pre-acquisition. It embodies in the following aspects:

On the one hand, risks on the strategic decisions. M&A is a high risky investment activity, when making investment decisions, enterprises should fully consider the strategic planning and long-term development. Companies should reasonably formulate strategic decision with its own actual situation and do not follow suit.

On the other hand, risks on price the target enterprises. It involves information asymmetry. In the pre-acquisition, it concludes the difference of culture, laws and ideology. Cross-border M&A is a kind of international direct investment. It is an efficient worldwide resources structure adjustment. Chinese oil enterprises actively participate in this activity. This case belongs to oil industry, considering the particularity of oil industry, political risks and financial risks is the main research object in this article.

2 Cnooc's m&a of unocal

2.1 A brief introduction of tripartite party in acquisition

China National Offshore Oil Corporation, or CNOOC for short, is one of the largest national oil companies in the People's Republic of China. It is founded in Beijing in 1982. The CNOOC Group mainly focuses on international cooperation in the exploitation, exploration of oil and natural gas in offshore China, its six business segments range from the exploration and development of oil and natural gas、professional technical services, refinery and sales of fertilizer to natural gas and the generation of electricity、financial services、new energy.

Unocal, founded on October 17, 1890, is the largest independent energy exploration and production company in the world with major oil and gas exploration and production sites in Asia, North America, the Netherlands and the Congo. Unocal has proven that about 70% of oil and gas reserves distributed in Asia and the Caspian Sea. 60% of Unocal's reserves are natural gas, mainly located in Asia.

Chevron Corporation, founded in 1879, is the second largest oil company in America and the fifth largest oil company in the world and active in more than 180 countries and regions. Chevron is engaged in every aspect of the oil and chemistry, including oil and gas exploration development and production; refining, marketing and transport; chemicals manufacturing and sales; new energy and power generation.

2.2 M&A Progress

On December 26, 2004 Fu Chengyu, when CNOOC's director, met Unocal's director Charles Williamson and reached initial intention of acquisition. January 7, 2005, Unocal was waiting for the appropriate bid, CNOOC planned to acquire Unocal in cash with a bid that valued Unocal at $13 billion. April 4, 2005, Chevron Corp., the nation's second-largest oil company, participated and announced that it would bid $ 16.4 billion (25 % in cash and 75 % in stock) for Unocal plus Unocal's $1.6 billion debt. In June 2005 the Federal Trade Commission (FTC), responsible for the audit of enterprise M&A, approved Chevron's takeover bid.On July 19, 2005 Chevron Corp. raised takeover price ——from $ 16.4 billion to $ 17.1 billion, and increased the proportion of cash in the takeover price. On July 20, 2005 Unocal announced that it had accepted a buyout offer from ChevronTexaco. On August 2 CNOOC Limited announced that it had withdrawn its bid, citing political tensions in the United States. So far, the largest M&A which lasted for up to 8 months ended in CNOOC out of the bid.

2.3 The M&A failure analysis

The first is the cultural differences between the two countries. The United States and China cultural differences from the business negotiation has been play a key role. Americans are direct, talking about problems like cut to the chase, at the same time, the efficiency is very high, they usually make decisions from top to bottom.

The second is the policy restriction in host countries. CNOOC's acquisition for Unocal case in the American public and politicians have aroused widespread attention, among them there are some objections. Although these problems objectively can be overcome, but the reality shows that these objections really has a negative impact

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on mergers and acquisitions.

Finally, comes as the Iraq war in 2005, the war caused by high oil prices, oil supply tension worry about its energy reserves and energy security in the United States; Chinese transnational merger and acquisition of state-owned enterprises have some supporting policies, such as access to cheap loans from the bank to make us more to worry about. At this point, CNOOC's acquisition of America's second largest oil company, it will inevitably touches the politically sensitive nerve, and even if M&A success has difficulty is very high, the cost is very high.

3 China's Oil Enterprises Cross-border M&A Risk Coping Strategies

3.1 The political risk prevention

3.1.1To the host country political intervention

First, fade out M&A party identity of state-owned enterprises. Petro China, CNOOC, Sinopec are state-owned capital holding state owned enterprise. Although the reform of marketization of China's oil companies have completed, but there are Suggestions that Chinese oil companies mergers and acquisitions abroad but is in to buy their own resources in China, is the national behavior, and wreaks rendering public opinion.

Second, encourage domestic private enterprises to participate in mergers and acquisitions. Our country state-owned enterprise merger and acquisition activity is always given the rich political color, mergers and acquisitions will be pure business practices to rise to the national political behavior. Different countries have different cultural background, local agencies for their own political, economic and legal environment is more familiar, more targeted. Establish and improve the market information system is to solve China's oil enterprises facing transnational merger and acquisition of information asymmetry problem. The government is necessary to intensify efforts to encourage the establishment of professional information consultancy, mergers and acquisitions to provide comprehensive information services for the enterprise.

3.1.2 To establish a standard investment regulations and management system

First, our country enterprise of foreign direct investment relevant laws and regulations is still confined to the state council promulgated, the lack of a system, long-term stability of the foreign direct investment regulations and management system. There are many mature foreign experience is worth using for reference. The U.S. government has signed bilateral agreements with many countries, the agreement at the American enterprise in the host country may not be non-discriminatory treatment and to protect American companies making many us companies in the local super national treatment.

Second, the need to further improve the system of foreign investment approval, make administration more efficient. From many departments, multifarious formalities for examination and approval, to a single department simplify examination and approval, audit contents, audit standard unified system.

Third, signing bilateral and multilateral agreements with other countries, combined to ensure the safety of investment. Now has a partnership with China in 170, but also signed a bilateral agreement on 130, there are 40 countries signed an agreement, which can cause political risks. China should actively and the 40 countries signed the bilateral agreement, ensure the security of enterprise investment, the investment losses due to the host country political intervention for responsibility.

3.2 The financial risk prevention

3.2.1 The early stage of the M&A risk prevention

Scientific and rational M&A strategy decisions. Cross-border M&A is a complex investment activities, not only need further investigation to understand target enterprise, the investor should be rational and objective assessment itself. On the one hand, the external environment, the enterprise strategic decision according to its stage of development, according to different stages of development, the decision on whether to participate in cross-border M&A. Their own point of view on the other hand, the M&A party should carefully evaluate the enterprise human resources management, financial management ability, talent reserves of transnational M&A, and management ability, etc.

3.2.2 Mid M&A risk prevention

Reasonable evaluation of enterprise capital requirements. Enterprise in assessing capital requirements in addition to consider the funds required for the target enterprise quotation, should also be considered for capital integration costs, time costs, interest, such as opportunity cost, make each stage of the cash inflows and the demand, staged financing plan,build diversified financing channels. The Chinese government shall be the enterprise platform, set up a fund to provide financing for overseas petroleum investment projects.

3.2.3 Late mergers and acquisitions in the prevention of financial risks

First, the financial system integration. The establishment of unified accounting standards, unified financial assessment mechanism, financial management system. After the success of the M&A deal with the M&A enterprise financial personnel to the assessment and appointment, to do not conform to the consolidated financial personnel of enterprise culture to recall, the implementation of effective performance appraisal system.

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Second, the cash liquidity integration. Merger and acquisition activity cost a great deal of mergers and acquisitions party enterprise resources, had a certain influence on enterprise capital liquidity. Strict internal audit shall be made in cash flow as a link, regular analysis of financial and control financial risk and operational risk effectively.

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