



Chevron Corporation Has Big Shoes to Fill in Canada

Description

Last week **Apache Corporation** (NYSE: APA) announced it had decided to abandon **Chevron Corporation's** ([NYSE: CVX](#)) Kitimat LNG project in British Columbia. Apache plans to divest its 50% stake in the project as it continues to refocus its business on steady, repeatable growth projects like shale.

While Apache's decision to exit isn't a death blow to the project, it certainly means Chevron will have big shoes to fill as it seeks out another partner.

Costs are a concern

In addition to its decision to exit Kitimat LNG, Apache also announced its intention to pull out of Chevron's Wheatstone LNG project in Australia. The company cites the dramatically rising costs of these projects, as Chevron's own Gorgon LNG project in Australia is a prime example.

Gorgon was originally expected to cost about US\$37 billion in just 2009. However, costs have surged to US\$54 billion, which are really impacting that project's economics. It's just one of the many large-scale projects that big oil companies have taken on that are being impacted by surging costs.

Apache would rather invest in repeatable drilling projects that can quickly move the needle. That's why the company has turned most of its attention to American shale plays. These are delivering high rates of return and projectable growth rates. Even better, drilling costs are actually coming down, which are improving economics.

Chevron's next move

Apache's decision to leave puts Chevron in a tough spot. It's unlikely to buy out its partner because it doesn't want to take on 100% of the project's risk. Because of that it likely won't have much say in who purchases Apache's stake. The hope is that Chevron will be able to attract a strong partner that really wants to work with it to develop the project as well as the associated natural gas reserves that will fuel the facility.

Among the most likely buyers of Apache's stake are Asian investors looking to secure gas for the region. Apache's stake could be parceled out to a number of Asian energy companies or sold to one big buyer. It had been rumoured late last year that China's [Sinopec was looking to buy a minority stake from Apache in the project](#).

Sinopec and Apache already have a strategic alliance as Sinopec bought 33% of Apache's Egyptian assets last year and the pair was looking to expand their alliance. Because of this it is quite possible that Sinopec will end up with at least part of Apache's stake in Kitimat LNG.

In the meantime Chevron plans to continue moving forward with the project. It has been drilling appraisal wells in the gas fields that will supply the project and [recently signed a deal](#) with **TransCanada Corporation** ([TSX: TRP](#))([NYSE: TRP](#)) for a \$1.9 billion pipeline that will help to supply gas to the facility. While a final investment decision on Kitimat LNG has still not been made, Chevron appears poised to move forward with the project even without Apache.

Investor takeaway

Apache's decision to exit Kitimat LNG isn't likely the death blow for the project. Canada has a vast supply of cheap natural gas and it will need export facilities like Kitimat LNG to get the gas into Asian markets. Because of this a deep-pocketed investor will likely be found to take on Apache's stake in the project.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CVX (Chevron Corporation)
2. NYSE:TRP (Tc Energy)
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