The Mighty Chevron Corporation Is Seeking Help in Canada

Description

The **Chevron Corporation** (NYSE: CVX) made US$5.7 billion dollars last quarter alone. However, according to a Reuters report it is seeking investors for upwards of US$1.5 billion in equity investments to help fund the development of the Duvernay Shale formation in Canada.

This isn't the only Canadian asset Chevron needs help funding; it's also looking for a replacement for **Apache Corporation** (NYSE: APA), which is bailing on the Kitimat LNG project. The curious question is that with all its billions in profits, why is Chevron seeking help in Canada?

A look at where Chevron wants help

Chevron completed its initial exploration of the Duvernay Shale last fall. The 12-well drilling program produced encouraging results as well performance exceeded the company's expectations. Because of this the company called the discovery "a foundation for future growth in Canada." It then transitioned to a two-rig drilling program this year to optimize well and completion design. Now, it's looking for help as it really begins to develop the asset.

It's not the first company to seek a partner in the Duvernay. **EnCana Corporation** (TSX: ECA)(NYSE:ECA) sold a 49.9% interest in its Duvernay Shale position to a Chinese energy company to help it fund the development of the play. The $2.18 billion deal paid EnCana $1.18 billion at closing with another $1 billion payable over four years as a drilling carry to fund half of EnCana's development capital.

Meanwhile, **Talisman Energy Inc** (TSX: TLM)(NYSE: TLM) and **Athabasca Oil Corp** (TSX: ATH) are both said to be seeking a joint venture partner to fund the development of a portion of their Duvernay Shale position. While both are seeking money to help fund drilling, that's not the only reason all want partners in the Duvernay.

It's all about the risk

The reason all of these companies are looking for a development partner is to reduce some of their risk. While the Duvernay Shale looks like a world-class liquids play, it's still very early in its development and might not turn out as good as the initial results suggest.

The energy industry has been burned many times before with a recent example being the Utica Shale in the U.S., which simply hasn't lived up to the lofty early expectations. This is why Chevron is seeking an equity partner to "diffuse the development risk for the next phase of the project" according to Reuters report.

There is a good reason why it wants to diffuse the risk. Chevron has struggled in recent years with skyrocketing project costs. Its Gorgon LNG project in Australia, for example, has seen its development cost surge from US$37 billion to an estimated US$54 billion. In fact, it is the surging cost of LNG projects that's behind Apache's decision to bow out of both its LNG joint ventures with Chevron, including Canada's Kitimat LNG project. Apache is seeking more predictable growth than LNG can offer it because of risk with unpredictable costs.

Investor takeaway

Oil and gas development is risky. Not only are the commodities volatile but so are the costs to develop these projects. That's why few energy companies go it alone when it comes to early stage development projects. So it's no surprise to see Chevron seeking investors to help fund its developments in Canada as the company knows all too well about the risks of development oil and gas projects. It's simply prudent risk management for an early stage shale play.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CVX (Chevron Corporation)

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