Chevron Corporation Turns to an Unlikely Source for Help in Canada

Description

According to a Reuters report a few months ago, **Chevron Corporation** (NYSE: CVX) was said to be seeking a partner to help it develop its Duvernay Shale position in Canada. The report said that Chevron was looking for upwards of US$1.5 billion in cash to help fund the development and offset some of the risk of the emerging shale play. Today, Chevron announced that it had indeed found a partner as it signed a US$1.5 billion joint venture agreement with an unlikely source, a Middle Eastern oil company. Let's see what the deal means for Chevron and for Canada.

Drilling down

Chevron's deal with KUFPEC Canada Inc., which is the Canadian subsidiary of Kuwait Foreign Petroleum Exploration Company, is for a 30% interest in the company's 330,000 net acres in the Duvernay Shale play. The US$1.5 billion that Chevron will be receiving includes both an up-front fee and a drilling carry that will help fund Chevron's portion of future well costs.

What's interesting about Chevron's chosen partner is the fact that the deal marks KUFPEC's initial entry into North America. With a world of other opportunities to choose from, the fact that it is choosing the Duvernay as its first foray in the continent suggests that it sees this as a very compelling opportunity. The company, which is currently active in 14 other countries, noted that it sees this project adding long-life reserves and production in a low-risk business environment that should provide it with decades of stable cash flow. Furthermore, it sees its partnership with Chevron being a key to its ability to learn how to develop shale technology. While Kuwait isn't known to hold any shale resources, the company can still transfer knowledge and skills to its other operations around the world. In addition, the deal could open the door for the company to seek more investment opportunities in Canada's energy sector.

Implications for the Canadian energy sector

This deal means two things for the Canadian energy sector. First, it will help accelerate the development of the Duvernay Shale and, second, it shows that Canada continues to receive a lot of interest from foreign energy companies to develop its natural resources. While a bulk of the attention has been on developing its oil sands region, more recent attention has turned to its shale plays.

In fact, this isn't the first national oil company to seek a piece of the Duvernay as **EnCana Corporation** (TSX: ECA)(NYSE: ECA) sold a 49.9% interest in its Duvernay Shale position to a Chinese energy company in 2012. In that $2.18 billion deal, EnCana was able to find a financial partner outside of North America to help it develop its 445,000 acres. Meanwhile, **Talisman Energy Inc.** (TSX: TLM)(NYSE: TLM) has been said to be looking for an outside partner to help it develop its Duvernay Shale assets as well. The company had been seeking a deal with Spain's Repsol for either the entire company or some of its assets so it can devote more of its attention on its shale-focused growth assets. While that deal is on the back burner for now, it's pretty clear that Canada will continue to look outside North America for capital to develop its energy assets as a lot of capital these days is being invested into its neighbor to the south as America's shale boom has really changed the energy landscape in the world.

Investor takeaway

Chevron thinks it has something special in the Duvernay Shale. That being said, the company isn't about to take on 100% of the risk of developing the play, which is why it's bringing in a Middle Eastern partner to offset some of that risk. It shows us that even the strongest energy companies aren't willing to bet everything on what could be the next big thing.

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1. NYSE:CVX (Chevron Corporation)

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