

News

Apache to Exit LNG Projects After Jana Pushes for Breakup

Apache Corp. is heeding advice from activist hedge fund Jana Partners LLC and exiting two costly natural gas projects as it considers selling some or all of its international assets.

The company will sell its stake in the Wheatstone liquefied natural gas project under construction in Australia and the proposed Kitimat LNG facility in Canada, Houston-based Apache said today in a statement. Apache, which got 42 percent of its revenue from the U.S. last year, is weighing a sale or separation of its international assets.

"There are no sacred cows and our efforts continue," Chairman and Chief Executive Officer Steven Farris said during a conference call with investors today. "We have recognized that there really are two different businesses."

Jana announced last week it had taken a \$1 billion stake in the company and was pushing for a sale of assets and an exit from the LNG projects. Those actions would free cash for share buybacks and reduce spending risks, according to Jana's July 22 letter to investors.

"This is a very big step in the right direction and we are pleased that Apache's board and the management team are listening to shareholders," Barry Rosenstein, founder of Jana, said in an e-mail today. "There remains a

lot of work to be done in the months ahead and we look forward to continuing our dialogue with management during this important transition."

'STRONGER FOCUS'

Global energy producers continue to face pressure to cut spending and focus on drilling opportunities in the U.S., where oil production has reached the highest level in more than 25 years. Apache's exposure to high-cost LNG projects and Egypt, where it produces the equivalent of 54,000 barrels of oil a day, have been a drag on shares for a decade, Jana said in the letter.

Apache rose 1.4 percent to \$102.66 at the close in New York. The company has gained 19 percent this year.

"The potential for them to have to fund those projects going forward has been weighing on the stock," said Brian Youngberg, an analyst at Edward Jones in St. Louis. "The market will view an even stronger focus on the U.S. as a major positive."

The company is in early discussions with potential buyers for its stake in the \$27 billion Wheatstone liquefied natural gas project in Australia, people familiar with the matter said earlier this month. The Chevron Corp.-operated

project could generate as much as \$1 billion in free cash flow for Apache by 2018 after its slated 2016 start up.

Royal Dutch Shell Plc said today it's completed the sale of its stake in the LNG project to the Kuwait Foreign Petroleum Exploration Co.

CAPITAL DRAIN

The LNG projects have been a drain on Apache's capital, absorbing about \$2 billion in spending this year, the company has said. Farris had previously stated he wanted to reduce the company's stake in the Kitimat LNG project on Canada's Pacific Coast, saying in February that he was "very confident" Apache and Chevron would find a partner this year to reduce their share of costs.

Apache's net income for the second quarter fell by 41 percent to \$613 million, or \$1.31 a share, from \$1.04 billion, or \$2.54, a year earlier, the company reported today. Excluding one-time items, per-share profit was 3 cents more than the \$1.64 average of 31 analysts' estimates compiled by Bloomberg. Sales fell 18 percent to \$3.48 billion.

By Bradley Olson