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Schlumberger to Pay $1.7 Billion for Stake in Russia Driller

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Schlumberger Ltd. (SLB) will pay $1.7 billion for a stake in Eurasia Drilling Co. (EDCL), a bet by the world's largest oilfield services provider that economic sanctions won't hold back Russia's energy industry.

Schlumberger, based in Houston and Paris, will pay $22 a share for a 46.45 percent holding in London-traded Eurasia Drilling, according to a statement today. Schlumberger has an option to buy the rest of the company's shares three years after the deal closes.

By buying into Russia's largest driller, Schlumberger is putting aside concerns about economic sanctions and the state of the country's economy. The deal comes as the slide in the crude price to less than $50 a barrel spurs consolidation in the services industry as demand for rigs drops and oil producers lean on suppliers to drive down costs.

"Schlumberger believes that the sanctions will be lifted sooner or later, and the company will be well-equipped to reap benefits from a growing Russian oil field services market by then," Alexander Kornilov, an oil and gas analyst at Alfa Bank, said by e-mail.

Eurasia shares rose as much as 72 percent to $20.90 a share in London trading today. Eurasia's dollar Eurobond due April 2020 surged, lowering the yield by a record 454 basis points to 9.62 percent.

Schlumberger shares dropped as much as 3 percent to $78.90 in New York.

"This is a time when you want a company to make acquisitions when stock prices are down," Rob Desai, a St. Louis-based analyst for Edward Jones who rates Schlumberger shares at buy and owns none, said today in a telephone interview. "This acquisition makes sense."

Targeted Sanctions

Though U.S. and EU sanctions have targeted Russia's oil industry, where Schlumberger has had a significant presence since the 1990s, they don't affect the vast majority of Eurasia Drilling's business. The measures include a ban on export licenses for technology used in production of oil from shale, as well as from Arctic offshore and deepwater areas.

The industry has also been hit by measures limiting access to international capital markets for Russia's largest companies.

The transaction foresees Eurasia Drilling's principal shareholders taking the company private and de-listing it. The deal is expected to close in the first quarter, Schlumberger said in the statement.

Principal Shareholders

In order to de-list, Eurasia's principal shareholders will offer $22 a share to other holders, an 81 percent premium to yesterday's closing price, Eurasia Drilling said in an e-mailed statement today.

"Its a great deal for minorities looking at the stock's current price," Alexei Kokin, an oil and gas analyst at UralSib Financial Corp., said by telephone. "If you wind back the clock and look at where the stock used to trade, it may be not so great."

Shares closed at a record high of $45.79 about one year ago before the Ukraine crisis started and oil moved into a bear market. Management may be selling because they think oil won't get back to $100, Kokin said.

Brent crude's 55 percent decline to $48.39 a barrel over the past year has meant trouble for services companies as producers have cut spending on drilling. OAO Lukoil (LKOD), Eurasia's largest customer, is no exception. It plans to cut spending this year due to lower oil prices, Chief Executive Officer Vagit Alekperov said late last year.

The drop has also spurred other deals in the oil services sector. Halliburton Co. (HAL), the second-largest U.S. oil services company after Schlumberger, agreed to pay about $37 billion for Baker Hughes Inc. (BHI) in November.

Substantial Premium

"The sharp reduction in oil and gas prices over the last six months is likely to result in industry consolidation because of lower exploration and production activity," Roderick Peacock, chairman of Xenon Capital Partners, said in an e-mailed statement. Xenon advised Eurasia Drilling's core shareholders on the deal, according to the statement. "The proposed transaction offers minority shareholders the opportunity to realize a very substantial premium."

Eurasia is also dealing with a dispute with OAO Rosneft (ROSN), Russia's largest oil producer, headed by Igor Sechin, a long time ally of President Vladimir Putin. That may have led Eurasia shareholders and management to seek a strong outside partner such as Schlumberger, Kornilov said. Rosneft reduced the amount of rigs it employed from Eurasia last year after a dispute over pricing.

Strategic Alliance

Schlumberger and Eurasia Drilling currently work under a strategic alliance formed in 2011, according to the statement.

Alexander Djaparidze, the billionaire founder of Eurasia Drilling, has done deals with Schlumberger previously. In 2003, he sold Russian oil field services company PetroAlliance to Schlumberger. The following year, Djaparidze bought drilling assets from Russia's second-largest oil producer OAO Lukoil and founded Eurasia Drilling.

Russia plans to maintain oil production this year at last year's levels even with oil prices as low as $50 a barrel, Russian Deputy Prime Minister Arkady Dvorkovich said yesterday.

Outside Russia, Eurasia provides drilling services in the Caspian Sea and in Iraq.

Eurasia Drilling will hold an extraordinary shareholders meeting on Feb. 16 to vote on the proposed deal. If approved, shares could be removed from the London Stock Exchange on Feb. 23, the company said in its statement.