

# Is Occidental Petroleum now takeover bait on Wall Street?

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Medical doctor/turned oil wildcatter Dr. Armond Hammer, the founder of Occidental Petroleum (OXY) fascinated me in my boyhood decades before I traded his stock on Wall Street. My uncles Amir Ali and Ahmed Rahmatula were agents of his International Ore and Fertilizer since the 1950's and often travelled in his personal jet to stay with Dr. Hammer in his Roman palazzo.

Dr. Hammer had done business with every Soviet leader from Vladimir Lenin to Mikhail Gorbachev. Oxy also helped break the Seven Sister (Exxon/Rockefeller) stranglehold over the empires of black gold by giving the Gaddafi regime higher royalties on its Libyan crude headed for Oxy's Italian refineries. Daniel Yergin writes in "The Prize" that Dr. Hammer would jet from Rome to Tripoli every morning as Major Abdel Salam Jalloud, then Brother Colonel's number two, screamed and ranted about Yankee imperialism at gunpoint.

Oxy's biggest oil strikes were the gushers in Alaska's North Slope and the UK/Norwegian offshore North Sea oilfields. In 2012, on a due diligence visit to Aberdeen, Scotland (for a biotech deal!), my limo driver was an ex-offshore rig worker who had survived the deadly Oxy platform Piper Alpha explosion of the coast of Aberdeen in the 1980's. Oxy even plays a critical role in the economic history of the UAE as ADNOC's partner (ironically with Exxon!) in the Dolphin Project, the biggest cross-border gas pipeline network in the GCC.

So I was mesmerized by the white-hot takeover battle that erupted after Chevron made a \$33 billion bid for Anadarko Petroleum. Chevron coveted Anadarko's Permian Basin shale oil acreage in Texas. Then the Wall Street grapevine began to buzz. Oxy's CEO Vicki Hollub countered with a \$38 cash and securities bid for Anadarko, which she later sweetened after a \$10 billion, 8% preferred dividend/80 million share warrant deal with Warren Buffett's Berkshire Hathaway. This sweetheart deal with the octogenarian Oracle of Omaha outraged Oxy shareholders T. Rowe Price and Matrix Advisors. The takeover battle for Anadarko has gutted Oxy's stock from 68 to 54 now. So I did what every Wall Street merger arb did - went short Oxy and long Chevron. A hostile takeover battle is a Sophoclean/Shakespearean epic of life, love, hate, greed, and yes, naked ego and fear.

Oxy has won Anadarko with Vicki Hollub's knockout bid. The shares can trade down to Buffett's 52 strike price on his 80 million warrants, where Oxy will offer no brainer value metrics at 13 times earnings and a 5.7% dividend yield for one of history's great oil and gas businesses - the shale acreage in Texas and New Mexico, a \$15 billion chemical business, a Gulf Coast pipeline network, the Dolphin Project, LNG and condensate projects from Russia to Latin America/Gringolandia.

Yet Vicki Hollub has outraged every fund manager who owns Oxy shares since her Buffett deal averted the need for a shareholder vote. There is now a shareholder revolt in the Oxy boardroom and a palace coup could be imminent. Chevron, a \$200 billion colossus, has conceded Anadarko to Oxy.

Oxy shares went into free fall after Chevron conceded the bidding war. A disaster for the longs, a gift for the shorts (my call? Cover Oxy pronto!). Vicki Hollub has won her prize with Oxy's \$76 bid but violated every taboo of corporate governance via sweetheart deal with Buffett and no shareholder vote. If Vicki is axed by the board, Occidental Petroleum could well be in play as takeover bait for Shell, BP and yes, Exxon (but sadly not Rosneft, PetroChina or Saudi Aramco due to Uncle Sam geopolitics!). This is the reason it is too dangerous to remain short Oxy at a time of a new military showdown between the Great Satan and the Axis of Evil in the Gulf. Oxy, after all, is one of the most crude oil sensitive shares in Big Oil, as it drills for black gold on Wall Street.

I adored the Bard of Avon's take on the ironies of existence - "Life is a tale told by an idiot, full of sound and fury, signifying nothing". So Vicki could well win Anadarko and lose Oxy. Financing for the Anadarko deal from Nebraska will bleed Occidental's balance sheet and bottom line. Winning at any cost is a bad strategy in a poker game, a Sotheby's auction or a takeover bidding war on Wall Street. The mathematics of Dr. Von Neumann's Game of Theory is obviously alien to Vicki Hollub, though it was not to Admiral Yamamoto on the eve of Pearl Harbour. If I was on the Oxy board, I would axe a CEO with no grasp of strategic nuance or capital discipline.

Oxy will have to strip Anadarko assets, to raise cash, like the Mozambique \$8.7 billion LNG sale engineered by Total. I will buy Chevron even at \$120 because Mike Wirth cashes in a \$1 billion deal breakup fee and scales up share buybacks to \$5 billion. Even though Chevron is valued five times higher than Oxy on the NYSE, its debt load will be lower. With \$40 billion net debt, Oxy bonds will be leprosy and credit downgrades are now possible. The battle for Anadarko ends. The battle for Oxy begins and every Big Oil CEO will now go big game hunting in the Permian Basin. That much, at least, is certain.

A version of this OP ED also appeared in AmelInfo on Maay 14, 2019: and can be accessed [here](#).