Petrobras plans $6bn Gulf of Mexico sale

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By Samantha Pearson in Rio de Janeiro

Petrobras is poised to sell up to $6bn of its Gulf of Mexico assets in one of its biggest divestments as the global commodity slowdown forces Brazil's biggest companies into a new era of austerity.
Maria das Graças Foster, Petrobras chief executive, said that the company had narrowed talks down to about three potential buyers.

Petrobras planned to complete the sale of the oil block stakes early next year – part of a $14.5bn asset disposal plan that will include refineries in the US and Japan.

"We are very near to closing the deal," said Ms Graças Foster, who has insisted on widespread cost-cutting at Brazil's state-controlled oil company since taking over in January.

She valued Petrobras' exploration assets in the Gulf of Mexico at about $8bn, adding that the company was prepared to sell a stake worth between $4bn and $6bn and would consider relinquishing majority control over some blocks.

The divestment comes as Vale, Brazil's vast iron ore miner, has also moved to sell more than $1bn of non-core assets, including its Colombian coal operations and stakes in offshore oil and gas blocks, as lower commodity prices squeeze its profit margins.

"We are operating in a moment of much more austerity now," Murilo Ferreira, Vale's chief executive, who took over last year, told the Financial Times.

"There will be a significant reduction in the number of our projects and much more discipline now when it comes to capital allocation," he said.

The new prudence of Brazil's two biggest companies, reinforced by the appointment of cautious company veterans at the helm of each, adds to growing evidence that the commodity supercycle behind the country's recent exuberant growth is coming to an end.

For Petrobras, the disposal of part of its Gulf of Mexico assets draws to a close a particularly aggressive period of decades-long expansion into US waters, where it has invested in almost 190 exploration blocks.

While Ms Graças Foster did not name which companies were bidding for Petrobras's Gulf assets, local media have said Shell, Exxon, Chevron and BP would probably have the most interest in acquiring more stakes in the region.
The funds raised will go towards developing Brazil's own vast offshore oil reserves, which are already expected to command a huge part of Petrobras's $236.5bn investment budget over the next four years.

The extra cash will also help ease financial concerns at Petrobras, which in August posted its first quarterly loss in 13 years and has shed more than R$60bn from its market value over the past two years.

Petrobras's net debt surged 20 per cent over the first half of this year to $65.9bn, partly as a result of a 7.2 per cent appreciation of the US dollar against the real that affected the value of the company's dollar-denominated loans.

The company's profits have also been eroded by rising operational costs as a result of strict local content rules, as well as the Brazilian government's insistence on fixing domestic fuel prices to help cap inflation.

Although the government agreed to marginally raise petrol and diesel prices in June, Petrobras still has to import oil at a loss to meet rampant domestic demand.

"The convergence of [local and international] prices is extremely important, even more so when you consider the size of our investments," said Ms Graças Foster.