

September 22, 2016

## Dow Jones Resources Coverage

EXCLUSIVE ANALYSIS AND NEWS BEATS

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- Exclusive news: **Exxon** faces probes over how it values its assets; **aluminum** pallets draw the **U.S. Commerce Department**'s scrutiny in Philadelphia; **Blackstone Group** and **ArcLight Capital Partners** buy **American Electric Power** assets; and more
- Unique analysis on a wave of **gold** selling in **India** that is pushing imports down; **OPEC** members targeting a narrow window for **oil** prices; and increased investment activity in the **Texas oil patch**

## Exclusive News

### Exxon Under Scrutiny Over Asset Values

We were first to report on Sept. 18 that New York Attorney General Eric Schneiderman was investigating Exxon Mobil's accounting practices over concerns the company has not written down the value of its assets, two years into a pronounced crash in oil prices.

- Exxon is the only major oil producer that hasn't done a write-down. Its top peers—Chevron, Shell, Total and BP—have booked more than \$50 billion overall in write-downs and impairments since 2014.
- Exxon says it is extremely conservative in booking the value of new potential fields and wells, a disposition that reduces its exposure to write-downs if the assets later prove to be worth less than expected. Its shares have fallen by about half as much as Chevron et al in part due to its resistance to writing down the value of its assets. Nevertheless, it has lost money for six straight quarters in its U.S. drilling business.
- On Sept. 20, we were first to report that the U.S. Securities and Exchange Commission is also probing how Exxon values its assets and how it estimates their future worth in a world of increasing climate-change regulations.

### Philadelphia Factory Linked to Chinese Aluminum Probe

The U.S. Commerce Department is investigating whether thousands of tons of aluminum at a factory in a Philadelphia suburb are part of an alleged scheme by a Chinese billionaire to evade tariffs by disguising the metal as shipping pallets and then remelting them for other uses, we reported on Sept. 15.

- The probe is part of a broader Commerce Department investigation into metals magnate Liu Zhongtian and his company, China Zhongwang Holdings, among the world's largest aluminum manufacturers, according to federal documents and a department spokesman.
- The Commerce Department in 2010 punished China Zhongwang and other Chinese producers with tariffs as high as 374.15% after finding they were receiving illegal subsidies, and also dumping, or selling products below market prices. Typical tariffs on other aluminum products, including pallets, are about 5%.

- The Commerce Department is investigating whether a New Jersey company called Aluminum Shapes became a separate route for Mr. Liu to evade tariffs. Aluminum Shapes says it hasn't violated any trade rules and that the pallets it stored were subject to duties of 2.68%. The pallets at Aluminum Shapes are several times heavier than similar ones on the market, potentially indicating that they were never really meant for that use—as pallets are supposed to be light to save on shipping costs.

## Deal for AEP Power Plants

Blackstone Group and ArcLight Capital Partners were close to a deal to acquire four Midwest power plants from American Electric Power for about \$2.1 billion, we reported first on Sept. 13.

- The deal was formally announced by AEP via a press release the following morning, putting the sale price at \$2.17 billion.
- The private-equity firms plan to acquire the coal-fired Gavin Power Plant in Cheshire, Ohio, and three natural-gas plants in Indiana and Ohio, we reported in our scoop.
- A slump in wholesale natural-gas prices has put pressure on independent power generators like the ones AEP is selling. AEP is selling the plants as part of a move away from wholesale power markets and toward its regulated utilities.

## More Exclusive News

Read more about the scoops discussed above and listed below by searching on **(N/NRG or N/DJCS)** and **P/PMDM**.

- Sept. 20—**Petronas**, Malaysia's national oil company, was looking to cut several hundred more jobs as grappled with weak oil prices. This scoop came after Petronas announced in March that it was cutting 1,000 jobs.
- Sept. 9—**OPEC** data that we reviewed showed that member countries' **crude-oil output** declined sharply in August as **Iran's** energy comeback stalled and **Saudi** production eased.
- Aug. 30—**Jagged Peak Energy** was exploring a sale of the company that could fetch more than \$2 billion. The news came amid a flurry of drilling and deal activity in the sought-after Permian Basin despite oil prices that are mired in their worst slump in years.
- Aug. 23—Sen. **Charles Grassley** was planning a hearing to examine large **agricultural mergers**, with a view to ensuring such tie-ups don't reduce competition that hurts farmers. Our exclusive reporting followed by a day an announcement from **China National Chemical Corp.** that its planned \$43 billion takeover of **Syngenta** was cleared by the **Committee on Foreign Investment** in the U.S.

## Unique Analysis

### Indians Sell Gold, Cashing In on High Prices

Indians are selling gold jewelry at an unusual pace to take advantage of prices that have risen about 22% since the start of the year, Biman Mukherji reported on Sept. 19.

- So much recycled gold has come into the system in the past few months that it has met 45%-60% of the local gold demand, according to the All India Gems & Jewellery Trade Federation.
- That supply has contributed to a plunge in India's gold imports. In the first eight months of the year, imports tumbled by more than half, to less than 300 tons.
- Rural folks selling their gold in many cases used it to buy extra seeds to cash in on especially plentiful rainfall in the monsoon season.

## OPEC Members Face Dilemma Before Meeting

OPEC members face a dilemma in the run-up to an upcoming round of oil-production talks: They want to boost crude prices to raise their revenue but don't want to send prices so high that North American shale-oil producers will increase their output, Benoit Faucon and Summer Said explained on Sept. 7.

- The result, say officials from members of the Organization of the Petroleum Exporting Countries, is that the group is unlikely to make aggressive efforts to curb output when it meets in Algiers beginning Sept. 26.
- The price window targeted by Iran's oil minister Bijan Zanganeh and others is \$50-\$60 a barrel. That's much lower than the \$70 that Mr. Zanganeh and other OPEC officials said they were hoping for earlier this year.
- The higher target represented a loss of patience in OPEC's current approach of keeping output high to force shale-oil businesses in the U.S. to stop pumping in the face of low prices. But while some U.S. drillers cut production after oil dropped below \$50 a barrel, they have surprised their Middle Eastern peers by picking up as soon prices regained that level this summer.

## Texas Oil Patch Heats Up

Oil prices are mired in their worst slump in decades, but you wouldn't know it in West Texas, where a land grab has energized an otherwise dormant market and sent some explorers' shares soaring, Ryan Dezember and Corrie Driebusch reported on Aug. 25.

- Blackstone Group said it has agreed to invest \$1.5 billion in a pair of drilling deals there, for example, drawing from an \$8 billion pool that has otherwise sat largely untapped since Blackstone raised the money to invest in energy early last year.
- Wall Street's rush to the Permian is a sign that a long-awaited recovery in oil and gas prices may be in the offing.
- Roughly half of the \$25.5 billion that has been paid this year for U.S. onshore drilling properties has been spent in the Permian Basin, according to RBC Capital Markets.

## About This Newsletter

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