



Marathon to buy Western Oil Sands

By Steve Gelsi, MarketWatch
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NEW YORK - Moving to secure new sources of oil at a time when prices are soaring, Marathon Oil Corp. on Tuesday said it has agreed to acquire Canada's Western Oil Sands Inc. in a deal valued at \$6.2 billion.

The Houston-based energy company also reported lower net income for the second quarter.

Under its agreement with Western Oil Sands, Marathon said shareholders of Western Oil Sands will receive about \$3.6 billion in cash and 34.3 million Marathon shares and securities exchangeable for Marathon stock.

Marathon will also assume \$650 million of debt in the deal, expected to close early in the fourth quarter.

Oil sands offer energy with a low geological risk since they lie on or near the surface of the ground. Tar-like oil is removed from the sand in an industrial process to make synthetic fuel. With oil trading near \$80 a barrel nowadays, oil sands have become more attractive, industry observers said.

The move failed to delight investors, however, who sent Marathon shares tumbling 3% to close at \$55.20. Marathon, like the rest of the energy sector, was caught in a broad market sell-off Tuesday that had more to do with concerns about shrinking liquidity in U.S. credit markets than oil prices.

Alan Lantz, editor of the Lantz Letter, cautioned that the deal is a bit risky for Marathon if oil prices fall below \$70 a barrel. On Tuesday, crude futures closed over \$78 for the first time.

"If you get a pullback from energy prices this could be the example of buying something at its peak," he said. "Wall Street is concerned about that."

Marathon approved an additional \$2 billion to be put to use making stock repurchases. Evan Smith, co-portfolio manager of the U.S. Global Resources Fund, said Marathon's shares are trading down partly on plans by the company to offer more stock to buy Western Oil.

"It looks like an attractive deal," he said. "Marathon has been talking about oil sands in Canada for a while and they finally found it. It'll boost their production."

Separately, Marathon said second-quarter net income fell to \$1.55 billion, or \$2.25 a share, from \$1.75 billion, or \$2.40 a share, earned in the year-ago period. On an adjusted basis, income would have risen to \$2.25 a share from \$2.08 a share, the company said.

Analysts surveyed by Thomson Financial forecast, on average, earnings of \$2.12 a share for the latest quarter.

Quarterly revenue fell to \$16.9 billion from the prior year's \$18.3 billion.

Marathon also said it boosted its budget covering capital, investment and exploration spending, excluding major acquisitions. As revised, the budget stands at \$4.7 billion, up from \$4.2 billion previously.