

Anbang bodes ill for CEFC-Rosneft

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China's clampdown on financial risk, which has already forced a great unwinding of overseas acquisitions by privately controlled conglomerates, may be about to claim another casualty.

News that the founder and chairman of CEFC China Energy Co has been investigated by authorities throws into question the fate of a 14% stake in Russia's Rosneft PJSC that the Chinese company agreed to buy in September. The \$9 billion deal, China's biggest international oil purchase since 2012, has yet to close.

While the acquisition is unlikely to be scrapped, changes can't be ruled out. The decisive factor will be what happens to CEFC, whose rapid transformation from an obscure fuel-trading business to a major overseas M&A player has fuelled speculation over its political connections and sources of funds.

There are several possibilities. The most benign is CEFC follows the path of Fosun Group, a Shanghai-based conglomerate whose chairman disappeared briefly in 2015 to assist authorities with an investigation. Though singled out for scrutiny by regulators along with other serial acquirers including HNA Group Co and Dalian Wanda Group Co, Fosun has continued to buy offshore assets since his reappearance, albeit on a smaller scale.

A more ominous precedent is Anbang Insurance Group Co. The government last week seized temporary control of the insurer, which also rose from obscurity in the past few years to carry out a series of headline-grabbing offshore purchases including paying almost \$2 billion for New York's Waldorf Astoria hotel.

A Shanghai government agency has taken control of CEFC, the *South China Morning Post* reported Friday, citing two unidentified people with direct knowledge of the matter. A CEFC spokesman said the company is operating normally and that media reports about Chairman Ye Jianming

are "unfounded".

Anbang also boasted political connections, with its founder having married into the family of late Chinese supreme leader Deng Xiaoping. However, such ties may not carry the weight they once did, with President Xi Jinping consolidating power and the Communist Party proposing last week to abolish term limits — a move that could keep him in power for life.

A government takeover of CEFC could see the company come under the control of one of China's state-owned oil giants, and might provide a pretext to renegotiate the terms of the Rosneft deal. CEFC bought the stake from a joint venture of Glencore Plc and the Qatar Investment Authority, agreeing to pay a 16% premium to the 30-day volume-weighted average price of Rosneft shares on Sept 8.

The stock is about 3% higher than when the deal was struck. Still, Rosneft has slumped 5% in the past three days as Exxon Mobil Corp abandoned drilling ventures with the state-controlled company because of expanded US sanctions on Russia.

While Beijing has a strategic interest in oil cooperation with Russia, which unseated Saudi Arabia as the largest exporter of crude to China in 2016, an extended slide in Rosneft shares might offer a tempting opportunity to argue the deal was an overly expensive acquisition by a rogue private operator that required intervention by authorities.

It's worth noting Rosneft is China's biggest overseas oil acquisition since state-owned Cnooc Ltd forked out \$15.1 billion for Canada's Nexen in 2012. The parallel is unfortunate. Nexen was a lesson in bad timing: Oil prices crashed soon after and Cnooc had to cut jobs.

The US also claims that two men, a former Senegal politician and an ex-Hong Kong government official, paid \$2 million in bribes to secure drilling contracts for CEFC.

■ *This column does not necessarily reflect the opinion of Bloomberg LP and its owners. Nisha Gopalan is a Bloomberg Gaffly columnist covering deals and banking.*