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Brazil's oil industry

Bustista

Eike Batista's oil firm files for bankruptcy protection

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A white-knuckle ride

ON OCTOBER 30th OGX, the oil-and-gas firm at the heart of the business empire of Eike Batista, a flamboyant entrepreneur who was until recently Brazil's richest man, filed for bankruptcy protection. One month earlier it had missed a $45m payment to bondholders, and attempts to negotiate a debt restructuring during a 30-day grace period failed. With $3.6 billion in bonds and another $500m owed to suppliers, it is Latin America's largest corporate failure. OGX now has two months, extendable for a further three, to agree a recovery plan with investors. Without fresh funding it will run out of cash by the end of the year and risk losing its most valuable remaining assets, stakes in two offshore oilfields close to production. That would leave investors with little or nothing.

OGX was listed in 2008 on the basis of promising exploration prospects. Industry specialists understood that without fields in production OGX was a high-risk proposition, says Mark McHugh of OFSCap, an energy-investment firm. But they were impressed by the "dream

team" put together by Mr Batista: a group of ex-employees of Petrobras, Brazil's state-controlled oil giant, with unrivalled experience and geological nous. Together with a high oil price, big discoveries in Brazilian waters just months earlier and Mr Batista's extraordinarily persuasive patter, that let it raise 6.7 billion reais ($3.7 billion) in what was Brazil's biggest-ever IPO at the time. In late 2010 its market capitalisation hit 75 billion reais.

But in June 2012 OGX slashed production guidance for what was supposed to be its most valuable field: the Tubarão Azul off Rio de Janeiro's coast. A year later it said the field would probably cease producing in 2014, and that several others nearby were unviable. Members of the dream team resigned or were sacked. The firm's production has been around 10,000 barrels a day this year, a fifth of the level predicted in the IPO prospectus. By the time it filed for bankruptcy its stockmarket valuation was 99% down on its peak and its bonds were trading at 8% of face value.

OGX's slow-motion collapse showed Mr Batista's business empire—six listed commodities

and logistics firms, several smaller private ones including a property developer and a goldminer—to be as fragile as a house of cards. The dream he sold was a chance to profit from both Brazil's fabulous mineral wealth and its government's inability to build the infrastructure needed to get that wealth to foreign markets. MMX owned iron-ore mines and was building a dedicated port. MPX's electricity plants would use OGX's gas and supply sister firms with cheap power. LLX's giant multi-use port, Açu, would become an oil-industry hub; OSX would use its shipyard to build and service vessels for OGX. (All those Xs were meant to symbolise the multiplication of wealth.) The firms' interdependence meant many chances to profit along some of Brazil's most valuable supply chains. But when OGX toppled, the others came tumbling down too.

Three of the "X" companies have now found new hands to develop their soundest assets, as other investors have increased their stakes and diluted Mr Batista's. EIG Global Energy Partners, an American investment firm, now controls LLX. MMX's iron-ore port has gone to Trafigura, a Dutch commodity trader, and to Mubadala, Abu Dhabi's sovereign-wealth fund. MPX, now called Eneva, is being run by E.ON, a German power giant. CCX, the only "X" with sizeable assets outside Brazil, is selling its Colombian coalmines. But OSX's very future is in doubt: most of its orders came from its crumbling sister firm.

The meteoric fall of Brazil's best-known businessman has hit the country's reputation, says Mr McHugh. "It gives the impression that the place is a bit flaky." And it leaves its oil industry without a big private player. But it was Mr Batista's personal flaws—a belief in his own infallibility and a fondness for yes-men—that brought him to grief. An insistence on going it alone meant OGX bore the full losses from its dud fields. From a fortune once estimated at $34 billion he retains little more than shrunken stakes in the rescuable bits of his empire. Three private jets and a helicopter have been sold. His luxury yacht, *Pink Fleet*, will probably be broken up for scrap.

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