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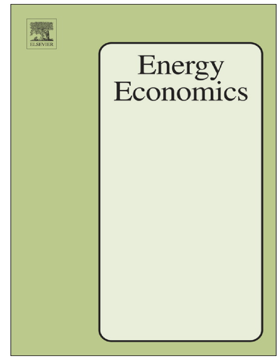

Value of investment: Evidence from the oil and gas industry

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Value of Investment: Evidence from the Oil and Gas Industry

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Abstract

Does capital investment create wealth for oil and gas firms? Event study analysis of investment in both conventional and unconventional resources is made to answer this question. Using a sample of 1,282 acquisition and 1,503 divestiture announcements over the period 1989 to 2011 we find that resource acquisition increases equity value consistent with information asymmetry arguments while resource divestiture also increases value consistent with portfolio arguments. The technological innovation literature suggests that investment in (divestment of) technologically complex assets could result in losses (gains) relative to simpler assets. On the assumption that exploitation of unconventional resources requires more innovative technology than conventional resources, we compare returns to conventional versus unconventional but find little evidence to support this prediction. Further, we find positive total wealth effects associated with these transactions, where both buyer and seller benefiting from the transactions on average. Finally, longer term analysis of returns to buy and hold transactions shows little evidence to support market biases in reaction to acquisition or divestiture announcements.

Keywords
Market efficiency, acquisition, divestitures, conventional and unconventional oil and gas resources

JEL Codes
G31, G34, G12, G14

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