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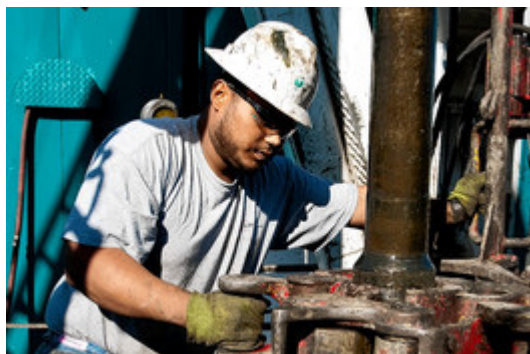
## Chesapeake Energy to Raise Up to \$5 Billion

By Lauren Pollock and Ellen Sheng

[Chesapeake Energy](#) Corp. has outlined a series of steps to raise as much as \$5 billion over the next two years to reduce debt and attain an investment-grade rating, including investments from Singapore's Temasek Holdings Pte. Ltd. and a Chinese private-equity firm.

The investments by Temasek, the Singaporean sovereign-wealth fund, and China's Hopu Investment Management Co. mark the latest attempt by Asian companies to grab a share of unconventional natural-gas sources, including shale-gas drilling in the U.S. The technology has enabled a significant increase to occur in U.S. natural-gas supplies.

In April, Indian conglomerate Reliance Industries Ltd. agreed to pay \$1.7 billion to [Atlas Energy](#) Inc. for a big stake in the Marcellus Shale, a massive natural-gas-rich rock formation underlying Pennsylvania, New York and other states. That deal followed [Mitsui](#) & Co. of Japan saying in February it would invest about \$1.4 billion in the Marcellus, buying nearly a third of an interest held by Houston-based Anadarko Petroleum Corp. Chesapeake also has holdings in the formation.



A Trinidad Drilling employee worked on a Chesapeake shale-gas site in Texas last year. Chesapeake's shale assets are drawing foreign interest.

Chesapeake, based in Oklahoma City, plans to use \$3.5 billion of the proceeds to repay debt and the remaining \$1.5 billion to boost its investment in fields rich with oil and natural-gas liquids.

The company was stung last year by sharply lower commodity prices amid reduced demand coupled with a large supply increase, as shale-gas drilling in the U.S. opened up new reserves. Companies such as Chesapeake have pioneered natural-gas production from shale—a process that involves drilling horizontally through dense rock formations and breaking them apart to release the gas trapped inside.

On Monday, Chesapeake announced a private placement of convertible preferred stock and signed a securities purchase pact with a Temasek affiliate as well as Hopu. The firms have agreed to buy \$600 million of Chesapeake's 5.75% convertible preferred stock and have a 30-day option for an additional \$500 million for investors in Asia.

A person familiar with the matter said the shares, when converted, would represent a 7% stake in Chesapeake. Temasek would get \$500 million of the initial preferred stock while Hopu would get the rest, and talks continue on the division of the optional \$500 million, the person said. The preferred stock carries an annual dividend of \$57.50, and each share will be convertible into about 37.037 shares of Chesapeake common stock.

In addition, Chesapeake will sell as much as a 20% interest in unit Chesapeake Appalachia LLC, which includes its Marcellus Shale operations, within the next three to 12 months.

"This is really more about trying to get fair value for our assets," Chesapeake Chief Executive Aubrey McClendon said during a conference call Tuesday.

Mr. McClendon said Chesapeake's \$12 billion debt load has remained an obstacle to the market recognizing the company's value. He added that he expects the sale of the Marcellus stake to raise at least \$2 billion.

Shares of Chesapeake rose 18 cents to \$23.28 at 4 p.m. Tuesday in composite trading on the New York Stock Exchange.

The transaction represents a shift in Temasek's investment strategy, as the majority of the state-owned company's investments are in Asia and in financial services.

Former [BHP Billiton](#) Chief Executive Charles "Chip" Goodyear, who was slated to lead Temasek before parting ways with the state-owned firm during the transition process, was widely expected to spearhead an effort to diversify Temasek's investments both geographically and by sector. Investments in the resources sector were expected to have become a greater priority for Temasek under Mr. Goodyear, but he left the firm last year, citing "differences regarding certain strategic issues."

For Hopu, a \$2.5 billion private-equity fund started by top China deal maker Fang Fenglei, the pact also marks something of a change, as it is the fund's first investment outside of China.

Hopu's investment in Chesapeake is a strategic play on clean energy, a person familiar with Hopu's strategy said. There is also some anticipation that Chesapeake may look to do something in China in the near future, giving Hopu an opportunity to act as a partner, the person said. Hopu recently advised Argentina's Bidas Energy Holdings Ltd. on its US\$3.1 billion oil-and-gas-production joint venture with China's [Cnooc](#) Ltd.

This is the second energy-related deal that Temasek and Hopu are jointly investing in. The firms jointly invested in Iron Mining International, a Mongolian iron-ore mine previously known as Lung Ming Investment Holdings Ltd. Iron Mining is seeking an initial public offering of stock in Hong Kong.

The firms recently jointly invested in China Yurun Food Group Ltd., a Chinese pork producer. Last year, the firms were part of a consortium that bought shares of Bank of China Ltd. and China Construction Bank Ltd. from Royal Bank of Scotland PLC and Bank of America Corp.

—Costas Paris and Jason Womack contributed to this article.

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#### **Corrections & Amplifications:**

**Hopu Investment Management Co.'s** investment in U.S. natural-gas producer [Chesapeake Energy](#) Corp. marks the Chinese private-equity firm's first investment outside of Asia. Hopu previously invested in Mongolia. This article about Chesapeake incorrectly said that Hopu's investment in the company was its first outside of China.

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