

# LUBES'n'GREASES

EUROPE – MIDDLE EAST – AFRICA



## PETRONAS BUYS A PLACE IN EUROPE

By Geeta Agashe

**T**he purchase of FL Selenia by Petronas for €1 billion (U.S. \$1.4 billion) catapulted the Malaysian national oil company into the top 20 lubricants marketers globally, in volumetric terms. But beyond its new market position, this bold acquisition of one of the largest independent lubricant blenders and marketers in Europe will have significant impact on the world market for finished lubricants, particularly in Europe, Middle East and Africa.

To understand how this will affect distribution and marketing in the industry, it is important to examine the market situation and positioning of the two companies making this combination such a formidable force.

The reasons for Petronas' acquisition and expansion stem, at least in part, from the fact that construction of the company's base oil refinery in Melaka, Malaysia, is nearing completion. The plant, a successful grass-roots effort by Petronas, is expected to begin producing API Group II and Group III base stocks before the end of this year. With the

exception of Germany, Europe allows lubricants blended with the Group III base stocks to be sold as synthetics. Particularly in Europe, synthetics and other high-performance finished lubricants are replacing lower-grade oils as original equipment manufacturers increase product standards and specifications. The Melaka base oil refinery will have the capacity to produce 270,000 metric tons per year of Group III base oils and another 70,000 tons of Group II.

Faced with an imminent surplus capacity – output from the Melaka plant will exceed the lubricant needs of the Malaysian market – Petronas needed to find additional outlets for these base stocks. Obvious customers for this additional base stock supply would have been other finished lubricant marketers which were not backwardly integrated with refinery capabilities or other lubricant manufacturers that, although backwardly integrated, do not produce enough base stocks of the needed quality to satisfy demand for their product.

Instead, Petronas made a strong strategic move and *acquired* a finished lubri-

cant marketer that was not backwardly integrated. Torino, Italy-based FL Selenia, one of the largest independent producers and marketers of branded automotive lubricants and specialist fluids, brings to the table substantial associations with original equipment manufacturers as a provider of factory fill lubricants in Brazil, France, the United Kingdom, Germany, Turkey, Portugal, Scandinavia, Austria and Poland. Petronas and FL Selenia had already been cooperating in selling the well-known Petronas lubricant brand, Syntium, in Europe and Asia.

By combining two complementary companies, each with strong positions in their respective geographic regions, Petronas made itself a global competitor with vertical strength.

The deal makes both companies stronger players in the European market for finished lubricants, and has several implications in Europe and around the world.

CONTINUED ON PAGE 2

First, it improves the positioning and ultimate market penetration of Petronas' high-performance lubricant brand, Syntium. FL Selenia's longstanding relationship with OEMs in Europe gives Petronas a ready-made network of factory-fill lubricant customers. FL Selenia's specific partnerships with Fiat, New Holland, Same Deutz-Fahr, Case, Iveco, Lamborghini Tractors and Alfa Romeo helped the company bring in €384 million in revenue from Europe in 2005.

Furthermore, finished lubricants marketers can expect to see competition from brands of both Petronas and FL Selenia in countries and regions where they have not previously been seen. Where before Petronas was a competitor only in Malaysia, South Africa and a few smaller markets, and FL Selenia mostly in Europe, the combined company represents a backwardly integrated organization with established brands and connections to OEMs in Europe, and a network of markets that includes significant portions of Asia and Europe.

It also means that FL Selenia is now financially backed by a company investing for the long term, as opposed to private equity firms that saw and made quick gains in the purchase of FL Sele-

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nia in recent years. The €1 billion Petronas paid to Kohlberg Kravis Roberts and Co. (KKR) was about 20 percent more than KKR had paid Vestar Capital for FL Selenia in 2005. Cash-rich from rising high crude oil and natural gas prices, Petronas was able and willing to pay the high price that other potential buyers balked at.

This change in the market landscape means competitors, particularly in Europe, will need to make some immediate adjustments. Base stock suppliers will need to look for buyers to replace FL Selenia's business. While the company may still purchase some Group I base stocks from the open market, it is likely its high-performance Group II and Group III needs will be supplied by Petronas. Marketers of finished lubricants should work to bolster their relationships with OEMs, as they can expect to see increased competition and expansion in that area from a more financially robust FL Selenia.



*Geeta Agashe is vice president, Petroleum and Energy Practice, at Kline & Company, a worldwide consulting and research firm. Based in the United States, she can be contacted at [Geeta\\_Agashe@KlineGroup.com](mailto:Geeta_Agashe@KlineGroup.com) or +1 973 435 3484.*

By choosing to purchase FL Selenia, rather than simply expand its customer base through organic growth, Petronas obtained a recognized, well-positioned brand and sizable chunks of the European lubricants market, with ready-made distribution for its base stocks and its own finished lubricants. Petronas also made itself a competitor in the European factory fill market, as well as for high-performance and Group III-derived synthetics.

From a strategic standpoint, the acquisition makes sense, especially considering that the companies had an already-established relationship. Time will tell if the price paid for FL Selenia will pay off financially for Petronas. ♦