Cepsa: Network, Trust, Integration, Client Service
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When a corporation makes an acquisition, one of the most urgent tasks for corporate treasury is obtaining visibility and control of the acquired company’s bank balances before incorporating those balances into existing corporate liquidity management structures. So when Spanish oil major Cepsa acquired Coastal Energy, Fernando González Romero, Head of Treasury at Cepsa, immediately called HSBC.

Integrating a new acquisition is demanding enough for any corporate treasurer, but when the acquired entity largely operates in a region of the world unfamiliar to the acquirer, the challenges are of an altogether higher order of magnitude. This was precisely the situation confronting Fernando González Romero, Head of Treasury of Cepsa, in March 2014. Cepsa was acquiring Coastal Energy, which had its principal assets in Asia, where Cepsa had little previous presence. The immediate need was to gain visibility and control of Coastal bank accounts held in Thailand, Malaysia, Singapore, Canada, US, UK, Mauritius, the Cayman Islands and Bermuda, while the longer term need was to assimilate Coastal’s balances into Cepsa’s liquidity management scheme.

While this task was exacting, it is rapidly becoming commonplace in the oil and gas industry. A recent straw poll of 223 oil and gas treasurers conducted by HSBC revealed that ~65% regarded dealing with M & A activity as their top priority. The remedy is to partner with a global bank that has the physical network and niche expertise to handle the most complex global M & A integrations efficiently.

Visibility and Control

As mentioned, the first priority for Cepsa’s treasury in Madrid was to obtain visibility and control of all Coastal’s HSBC bank accounts worldwide in a very short time frame. In order to do this, new transaction authorisers had to be appointed for these accounts, which would involve such tasks as providing proof of ID plus complying with other bank Know Your Customer (KYC) and Anti Money Laundering (AML) measures. By early 2014 Cepsa had already made progress with this process itself on a country by country basis, but the demands of communicating with multiple third parties in several languages around the globe in various different time zones, plus differing documentation and legal requirements, were causing delays. In order to expedite the transition, the task needed to be tackled differently.

“It seemed clear that we needed to take a different approach and ask HSBC to manage the process on our behalf,” says Fernando González Romero. “Ideally, they would handle all the international communications with their offices internally, while providing us with a single point of contact and coordination here in Madrid. They would express our needs to their colleagues elsewhere, filter any requests to us for information to minimise our workload and keep us updated on progress.”

The account transition represented a considerable challenge, as it involved more than 20 bank accounts, in different currencies and in seven different countries belonging to various Coastal entities. Furthermore, several key Coastal personnel were due to be leaving the company post-acquisition. Therefore, the whole transition process had to be completed with new transaction authorisers in place within three weeks if disruption to the Coastal businesses was to be avoided.

Cepsa’s Treasury HO was assigned the task of managing the account transition on Friday March 28th, 2014. Fernando González Romero immediately called HSBC’s Madrid office requesting a meeting at the bank that afternoon. At the meeting, Fernando and two of his colleagues outlined the challenge to Blanca Goñi Gonzalez, HSBC’s Head of Global Liquidity & Cash Management in Madrid, and her team.

“Going into the meeting I had some concerns as to whether it could be done. We had a three week deadline to turn around an increasingly demanding task. Additionally, the team dealing with it until then, regardless of their efforts, felt the degree of achievement of it’s goals was not satisfactory. During the meeting, it became clear that the HSBC team understood the challenge exactly, as well as how to deal with it. By the end of the meeting I knew the target would be hit on time, the building blocks of a plan had been drawn up by HSBC during the conversation and a fully committed team had taken a tight grip on the challenge”
The HSBC team started work immediately over the weekend. A project plan was produced identifying which documentation was needed in each country and daily conference calls were organised to update Cepsa on progress. An important part of the project was co-ordinating requirements globally to avoid asking Cepsa for unnecessary information.

“For instance, a particular jurisdiction might require a certain form of ID for a new authoriser, but another jurisdiction might already have that ID on file,” says Blanca Goñi Gonzalez. “Rather than unnecessarily request the ID again from Cepsa we could simply supply it internally. As quite a few of the authorisers were already known to us here in Madrid, we were able to speed things up significantly in this way.”

Despite the very tight deadline, the project was completed within the required three weeks and Coastal’s day to day operations were not affected. Cepsa was already using HSBCnet, so the Coastal bank balance information was immediately available to Cepsa in Madrid via that.

“We were extremely impressed with how HSBC resolved this important challenge on our behalf,” says Fernando González Romero. “By having a single point of contact, our needs were consistently explained globally and our workload was kept to the absolute minimum. At the same time, we were briefed daily so we could clearly see how things were progressing, identify any bottlenecks and tackle them.”

Relationship Expansion and Liquidity
The success of the project prompted Cepsa to expand its relationship with HSBC. The company was using another bank for the bulk of its international business, but for its more remote locations it was keen to add another network of accounts for resilience. It awarded this business to HSBC and asked the bank to open new accounts for Coastal entities in locations such as Malaysia and Singapore. In addition, it asked the bank to develop a suitable regional liquidity structure incorporating these new accounts along with existing Coastal accounts in Asia.

A statement of work, itemising all the necessary steps, was prepared by HSBC and agreed by Cepsa. The statement of work was then developed into a formal project plan, that was also agreed, and a dedicated HSBC implementation manager was appointed based in Singapore working with the team in Madrid. Once work started, the implementation team was largely working in parallel with Cepsa’s legal advisers who were guiding the company on the most tax efficient legal structure. Accounts were migrated/opened in accordance with this, which included accounts for a new Singaporean holding company.

Sensitivity to cultural differences between Cepsa and Coastal personnel was an important part of the project. Cepsa was keen that Coastal staff did not feel alienated in any way and that HSBC should also be aware of country-specific cultural nuances during the implementation. The bank’s substantial physical network presence and local awareness meant that it was able to deliver on this, both generally and specifically. An important specific example was that the bank has teams of experienced and qualified ERP specialists that operate in individual countries rather than just regionally. In Cepsa’s case, the need was for SAP specialists and the bank already had these in place in both Thailand and Malaysia. This meant that the risk of anything being lost in translation between a regional specialist based in, say, Singapore and in country teams was negated.

Liquidity management structure
The fact that Cepsa previously had limited exposure to Thailand and Malaysia meant that it needed a banking partner who fully understood all the local business practices and regulatory requirements. This was particularly important in the case of liquidity management, because of the regulatory challenges of some of Coastal’s primary markets, especially Thailand.

The bulk of Coastal’s revenue in Thailand was in Thai baht (THB), in the form of a contract with PTT - the national oil company. Thai baht is a restricted currency and cannot be freely moved out of the country. Coastal’s PTT contract was initially for exploration and prospecting, but once oil started to pump, the scale of its baht income increased significantly. In view of the currency controls on Thai baht, this would over time result in a major accumulation of currency that could not directly participate in Cepsa’s global liquidity management structure.
Conclusion

Cepsa was facing a situation that is becoming increasingly commonplace for oil and gas companies. M & A activity results in an acquisition that must be integrated as efficiently as possible, as quickly as possible. Successfully accomplishing this requires a banking partner armed with the right people, client focus, network, local knowledge, expertise and global solutions. “I am delighted that we were able to assist Cepsa in meeting a very demanding deadline that was operationally critical for them, plus devise an effective liquidity management structure for the company in the challenging environment of Asia,” says Lance Kawaguchi, Managing Director, Global Sector Head, Global Banking Corporates, Global Liquidity and Cash Management at HSBC.

The integration of Coastal Energy has also marked a further stage in the relationship between Cepsa and HSBC. “Before we started the initial transition of authorisers for the Coastal Energy accounts, Cepsa felt operationally close to HSBC on an international basis,” says Fernando González Romero. “Overcoming this challenge has proven the value of the HSBC Cash Management team. While it exposed its members (and HSBC) to an uncertain outcome with a very demanding goal, the excellent results achieved with the transition and the subsequent liquidity structure solution for Asia have further cemented and expanded Cepsa’s relationship with HSBC.”

Client profile

Cepsa (Compañía Española de Petróleos, S.A.U.) is an integrated energy company with more than 10,000 employees around the globe. Cepsa operates at every stage of the oil value chain: petroleum and natural gas exploration and production, refining, the transport and sale of crude oil derivatives, petrochemicals, gas and electricity.

The company was established in 1929 as Spain’s first private oil company and is now the country’s fourth largest industrial group in terms of turnover. As a result of its flexibility and ability to adapt, Cepsa has become a benchmark company in its sector in Spain. Progressive internationalisation of its activities means that the company now has significant business interests in more than fifteen countries around the world, including Algeria, Brazil, Canada, China, Colombia, Germany, Malaysia, Panama, Peru, Portugal, Thailand and UAE, and sells its products worldwide. Cepsa is wholly-owned by International Petroleum Investment Company (IPIC), which is the Abu Dhabi government’s vehicle for making investments in the energy sector.

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