Wealth effects of strategic alliances in the resource industry in Australia

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CERTIFICATE OF ORIGINAL AUTHORSHIP

I, Luiz Fernando Distadio declare that this thesis, is submitted in fulfilment of the requirements for the award of Doctor of Philosophy, in the Business School at the University of Technology Sydney.

This thesis is wholly my own work unless otherwise reference or acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

This document has not been submitted for qualifications at any other academic institution.

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Abstract

This thesis examines interfirm arrangements in the resource industry. Coase (1937) argues firms' boundaries are the result of their pursuit of an optimal employment of economic resources in maximising wealth creation. Extant evidence from the financial economics literature on alliances suggests they are motivated by firms seeking to channel financial resources (Lerner, Shane & Tsai 2003; Robinson 2008), and to diversify risks and combine complementary resources (Beshears 2013; Palia, Ravid & Reisel 2007). The objective of this thesis is to examine motivations of extractive firms listed on the Australian Securities Exchange (ASX) to engage in two types of cooperative arrangements.The first alliance of interest is farmout agreements. Through keyword searches on Morningstar's Datanalysis Premium and Factiva databases, a sample of 589 farmor ('vendor') and 389 farminee ('buyer') announcements is collected for oil and gas companies over the period 1990−2016. Announcement returns show these arrangements are economically important, with farmors (farminees) experiencing positive abnormal returns of 3.60% (1.90%) over a three-day event window. In terms of motivation, cross-sectional evidence finds support for resource-pooling, with only mixed support for the expertise hypothesis. Furthermore, farmors' abnormal returns are positively associated with the volatility of crude oil prices, consistent with the real options theory. This thesis is the first empirical study of farmout agreements, with only descriptive evidence in Lowe (1987). Offtake agreements are the second type of alliance investigated. Using a sample of 396 offtakes announced by ASX resource firms from 1995 to 2018, there is evidence of a positive market reaction of 5.73% to project sponsors. Furthermore, there is evidence that returns are impacted by resource-pooling. For offtakes with intermediaries (e.g., trading houses), an adverse certification effect is found for the project firms. Finally, there is a positive relation between announcing firms' abnormal return and the price volatility of a basket of commodities, confirming real options theory implications for offtake projects.

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