Exclusive
$10.4B bid for Australian gas company Santos points to rosy view on global LNG

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Private equity-backed Harbour Energy Ltd's $10.4 billion takeover offer for Australian oil and gas producer Santos Ltd. points to improving views on the global market for LNG, where talk of oversupply has quieted amid strong Asian demand, analysts said.

Santos said April 2 that it would consider Harbour's top-dollar bid, which values the oil and gas company at a 28% premium to its last closing price. Should the deal go through, U.S.-based Harbour will gain stakes in two LNG projects in Australia and another in Papua New Guinea in addition to Santos' upstream assets.

Harbour's latest offer, its fourth since August 2017, comes at a time when LNG market sentiment is "rebounding," Wood Mackenzie Ltd. analyst Saul Kavonic said in a note. While much of the conversation in the last couple of years has focused on a supply glut spurred by new export capacity in the U.S. and Australia, industry observers are beginning to see a shortage emerging in the early to mid-2020s if additional projects are not sanctioned.

"Especially since prices spiked over the last six months, there is appetite for exposure to long term diversified LNG focused plays, particularly by emerging Chinese and other global [national oil company] players," Kavonic said.

Though Santos' exposure to Asia caused pain when Chinese LNG demand lagged expectations, the company's Asia-centric business now offers promise, said Dustin Meyer, lead LNG analyst at Energy Ventures Analysis. China in 2017 surged to become the world's second-biggest LNG importer, receiving nearly 50% more of the fuel than it did the year before.

"Santos has had a difficult stretch over the past few years, but Harbour Energy's sustained interest in the company reflects the financial community's increased comfort around the future outlook for global gas demand in general and LNG in particular," Meyer said.

Harbour Energy's first offer for Santos in August 2017 valued the company at A$4.55 per share. The latest offer values the company at A$6.50 per share, and Santos' board considered the offer to be good enough to recommend further engagement with Harbour and started a confidential due diligence process.

Harbour's efforts to take over Santos also highlight the growing role of private equity in the LNG space. In the U.S., private equity firms have a presence in a number of projects under construction.

Blackstone Group LP in 2012 poured $1.5 billion into a Cheniere-controlled master limited partnership, an investment that grew to be worth more than $6.3 billion when Cheniere Energy Partners LP registered nearly 200 million common units to be issued to the firm. EIG Global Energy Partners, which founded Harbour Energy in 2014, has invested in Cheniere's Corpus Christi LNG project in Texas and Kinder Morgan Inc.'s Elba Island terminal in Georgia. Global Infrastructure Partners in 2014 acquired a 25% equity interest in the Freeport LNG export terminal.

"We've seen big roles for private equity funds in U.S. LNG export investments," said Michael Whalen, a managing director at consulting firm Berkeley Research Group. "There is a lot of capital investment in the private market looking for scale opportunities, and [Harbour's Santos offer] is a continuation of the trend of private equity expanding into a space previously dominated by strategic players."

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