

FINANCIAL REVIEW

Companies and Markets

Seven finally sells into bid for AWE

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Kerry Stokes' Seven Group Holdings has finally accepted Mitsui's takeover offer for its shares in oil and gas play AWE and is now backing the Japanese giant to operate the prized Waitsia gas field in Western Australia despite earlier calling for that role to pass to partner Beach Energy.

Seven Group's acceptance of the \$602 million offer propelled Mitsui above the 90 per cent threshold for its interest in AWE, which will allow it to move to 100 per cent ownership. Mitsui said late yesterday it had now secured 93.19 per cent of AWE and extended its 95¢-a-share offer, which was due to close yesterday, until May 2.

The oil and gas junior's half share in Waitsia had also drawn corporate takeover interest in AWE from China and Australian players. Some small shareholders have still refused to sell their shares, convinced the offer undervalues the target.

The Japanese trading giant beat off competitors China Energy Reserve and Chemical Group and Perth-based Mineral Resources Ltd to win the endorsement of the AWE board for its offer, which has been sweetened once and which is priced at almost double AWE's share price before the first takeover approach was announced.

The key to the M&A interest around AWE is the promising Waitsia onshore field, which looks set to become a significant, relatively low-cost producer for the Western Australian market.

Seven, owner of about 25 per cent of the other half-owner of Waitsia, Beach Energy, had been keeping its options open around its 4 per cent stake in AWE. Its non-acceptance of Mitsui's offer was seen by some observers as potentially part of a play to try to wrest operating control of Waitsia away from Mitsui into the hands of Beach Energy.

Seven chief executive Ryan Stokes said in February he saw Beach, an existing low-cost operator in the Australian oil and gas sector, as better placed to unlock value in the venture.

But Mr Stokes signalled yesterday that Seven supported Mitsui's role as operator.

"SGH is supportive of Mitsui's ability to lead the development of the Waitsia asset, a quality gas reserve, which is value enhancing for both Beach and AWE/Mitsui," Mr Stokes said by email.

"For SGH this has been an opportunistic investment in a company that we recognised as undervalued. We are confident in the ability for Beach to work with Mitsui to maximise value."

Mitsui wants to use its takeover of AWE in order to take on an operating role in the oil and gas sector in Australia, where it has several minority stakes in ventures but without management responsibility.

"History is replete with junior E&P [exploration and production] companies sanctioning sub-optimal developments with constrained balance sheets, but in this case there are two very strong and potentially very capable operators trying to take Waitsia to the next stage of commercial development," independent consultant Scott Ashton said.

Meanwhile, AWE appointed two long-standing Mitsui executives to its board in light of control passing to the Japanese firm.

Kensuke Togawa is general manager of Mitsui E&P Australia, the company that owns the local petroleum interests, and has a track record in M&A deals. Perth-based Hiroyuki Matsuyama is in charge of finance at Mitsui's Australian oil and gas arm.

Key pointsSeven's acceptance allows Mitsui to move to 100 per cent ownership of AWE.

AWE's Waitsia gasfield looks set to become a significant low-cost producer in WA.

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