

FINANCIAL REVIEW

Companies and Markets

Not all plain sailing for Mitsui on AWE

Angela Macdonald-Smith

616 words

10 April 2018

The Australian Financial Review

AFNR

First

14

English

Copyright 2018. Fairfax Media Management Pty Limited.

Kerry Stokes' Seven Group Holdings has emerged as a thorn in the side of Mitsui, creating a real risk that the Japanese trading giant may fail to secure total ownership of AWE in its \$602 million takeover bid.

Seven, which is allied with AWE's partner in the prized Waitsia gas field in Western Australia, Beach Energy, is understood not yet to have accepted Mitsui's offer for its circa 4 per cent stake as it considers its options and monitors acceptances of the offer.

Also holding out is dissident shareholder James Dunphy and his associates, in the stubborn belief that Mitsui's 95¢ a share offer undervalues AWE. Mr Dunphy sold most of his stake in AWE in December and his remaining interest is thought to be minimal, so Seven and Mr Dunphy on their own are far from enough to prevent Mitsui from securing the 90 per cent it needs for compulsory acquisition of the rest.

Still, the remaining investors in AWE risk being left with a minority stake in an unlisted vehicle given Mitsui has declared it would look to scrap the target's listing should it reach 75 per cent acceptances. The Japanese firm, which beat rivals Mineral Resources Ltd and China Energy Reserve and Chemicals Group to AWE, reported yesterday it had further increased its interest to 74.34 per cent.

The offer, which was announced on February 5, was automatically extended by 14 days late last week after Mitsui gained just over 50 per cent. It is now due to close on April 18.

Seven has not stated its intentions regarding Mitsui's offer, but chief executive Ryan Stokes' openly declared support for the operating role for Waitsia to pass to Beach has fuelled speculation that it is manoeuvring behind the scenes on the issue as it holds out on the bid.

Mr Stokes argues that Beach, which is about 25 per cent owned by Seven, is better positioned as an existing low-cost operator in the Australian oil and gas sector to unlock greater value in Waitsia, an onshore gas field north of Perth which has the makings of a significant producer.

Mitsui, however, wants to use its takeover of AWE to launch into an operating role in Australia.

"I suspect the Stokes' interests will remain holders to enable further agitation in relation to management of Waitsia," said Mr Dunphy, who has declared he is "not accepting" the offer.

Mr Dunphy's opposition to Mitsui's offer is driven largely by the gas price assumption used by the independent expert hired by AWE to value Waitsia. He has argued Mitsui needs to offer at least \$1.10 a share for AWE, even though Mitsui has declared its offer final, eliminating any possible increase.

Macquarie analyst Andrew Hodge named the delisting of AWE as the "key risk" for remaining investors given Mitsui's intention - outlined in its bidder's statement - to take the oil and gas producer private should it reach 75 per cent of acceptances even if it fails to reach 90 per cent.

Still, Mr Dunphy pointed to "significant issues in terms of the best interests of shareholders" in the event of a delisting. "Let's see what the board slate looks like when they close the offer," he said.

AWE shares closed unchanged at 95¢, exactly on a par with the offer.

Meanwhile, AWE and Mitsui, which work alongside each other in a New Zealand exploration venture, announced a deal to bring in two new partners, New Zealand Oil & Gas and its majority shareholder O.G. Oil & Gas (Singapore), into the onshore permit.

Document AFNR000020180409ee4a0000z