



## Business

**Chinese shareholder in talks with Santos suitor**

Cole Latimer

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HARBOUR BID | ENN considers future sales

Santos' Chinese shareholder is understood to be in talks with suitor Harbour Energy to retain a major stake in the Australian oil and gas producer if Harbour's \$13.5 billion bid succeeds.

ENN, which holds about 10 per cent of Santos, made it clear on Monday night it was not interested in a cash offer for its shares. But it is understood the group is open to a deal with Harbour that would allow it to retain exposure to Santos' assets.

Earlier this month, Harbour Energy made a \$13.5 billion bid for Santos, putting forward an all-cash offer of \$6.50 a share, the third proposal it has made.

The newest bid represented a 40 per cent premium on Harbour Energy's first bid in August last year.

Following Harbour's latest offer, major shareholder ENN - one of the largest private companies in China - said it would be open to speaking to Harbour, although it indicated it wants to maintain exposure to Santos' assets.

"Santos is an important part of the company's long-term strategy for clean energy. At present, there is no intention to sell shares in exchange for cash," ENN said in a company statement on the Shanghai exchange.

A source close to Santos said ENN's eagerness to retain exposure to Santos' assets is the same reasoning behind Harbour's approach. "Santos is in an extremely strong position and its value continues to rise - that's the potential that Harbour sees," they said.

A source familiar with both ENN and Harbour Energy said ENN would likely make a deal to retain a position in any unlisted vehicle as there exists a strategic alignment between both companies.

"There's no doubt Harbour has growth ambitions, both domestically and through Asia Pacific, and it would use Santos as a platform do so, which would be supported by ENN," he said.

He said there was an LNG supply agreement between ENN and Santos, which could be expanded under Harbour Energy.

RBC Capital Markets analyst Ben Wilson said ENN was more interested in retaining exposure to Santos' assets than a pay day.

"ENN may have an issue with a change in control, but fundamentally, they're in a position to maintain investment for exposure to the assets," he said. "Harbour Energy's bid has been quite accommodating of the requests of major shareholder groups."

Mr Wilson said an unlisted vehicle was low risk for ENN and fellow Chinese firm Hony - which hold a combined 15 per cent - as it is unlikely that other shareholders would want to join.

"However, from ENN and Hony's point of view, there's no guarantee of it should they elect to participate. The only downside for them, provided they agree with the price, is the lack of liquidity in holding an unlisted vehicle."

Fat Prophets analyst David Lennox said ENN had opened up to Harbour because its bid is finally near Santos' true value.

"This new bid is much closer to the mark as the last bid was short. We believe their value is closer to \$7 a share," he said.

Mr Lennox said ENN likely wanted to retain its position in Santos, and access to its gas, due to the forecast gap between LNG supply and demand, as global LNG demand is predicted to surpass 300 million tonnes for the first time ever.

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