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Woodside cool on play for rival Santos

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Woodside Petroleum chief executive Peter Coleman has poured cold water on speculation the company could be tempted to run the ruler over smaller, in-play rival Santos, saying he has "enough projects on his hands" and wants to focus on LNG growth at the Scarborough and Browse fields in Western Australia.

"The basket is pretty well full for us: if you see M&A from us at the moment, it will just be about sharpening up some of the options we have," Mr Coleman said in an interview after Woodside posted a strong March quarter, thanks to the start-up of the Wheatstone LNG project and higher commodity prices.

Santos, which has interests in LNG ventures in Papua New Guinea, Darwin and Queensland, has attracted a proposed \$13.5 billion takeover bid from US private firm Harbour Energy, sparking talk that other players could be spurred into studying a rival bid.

But Mr Coleman pointed out that Santos's LNG interests are mostly non-operated stakes in projects in Papua New Guinea and Darwin, plus its GLNG coal seam gas-based project in Queensland, confirming the view Woodside is an unlikely suitor.

Woodside, which once sought a stake in PNG LNG, has focused on operated interests in its LNG projects plus the 13 per cent stake in Chevron's Wheatstone that Mr Coleman described as "strategic".

"The attraction to those sorts of assets would be more around getting hold of the cargoes and getting costs down so you could be an equity player in the market, but we're OK, I've kind of got enough projects on my hands at this point in time," said Mr Coleman, who will face shareholders at the annual meeting in Perth on Thursday.

"You've also got to be mindful of the complexity that you bring into an organisation, and I think the best thing we can do for Woodside and its shareholders is to move Scarborough and Browse through."

Meanwhile, Mr Coleman declared that a new-found awareness of the tightening market for LNG in Asia augurs well for the repricing of key contracts from Woodside's Pluto LNG venture and the "doomsday" view taken by some analysts that have assumed significant price cuts is off the mark.

He said he had just returned from a visit to Japan and China, where "consensus is now clearly moving" towards a view that the LNG market will return to balanced supply and demand in 2021, eliminating the market surplus sooner than some had expected.

"You can see that buyers are going to start to be quite aggressive in the market here soon, as early as the end of this year, trying to ensure they secure cargoes before that supply-demand gets into imbalance," Mr Coleman said.

"We think the market conditions are starting to turn in our favour for that review," he added, referring to the re-pricing of LNG from Pluto that will start in the June quarter 2019.

"The analysts are now starting to recalibrate their own doomsday view of the world."

The March quarter saw a solid contribution from the new, \$US34 billion Wheatstone LNG project, with the first production train out-producing its rated capacity, while Mr Coleman said the second train would start up by the end of June.

After a suffering a rocky start-up last year when only one cargo was shipped, Wheatstone output helped fuel an 18 per cent increase in Woodside's quarterly sales to \$US1.169 billion.

Output in the three months was 22.2 million barrels of oil equivalent, up from 21.4 million boe a year earlier and higher than some analysts were forecasting.

JPMorgan analyst Mark Busuttill pointed to stronger-than-expected prices driving a "strong" quarter and noted that Woodside is now tracking towards the top end of its full-year production guidance of 85 million-90 million boe.

The average price Woodside got for its oil and gas in the quarter was \$US51 a barrel, 16 per cent higher than a year earlier.

Shares in Woodside rose 1.1 per cent to \$30.72.

Woodside is aiming to develop the Scarborough gas field through an expansion of Pluto, and to negotiate a deal with the North West Shelf venture to have gas from the Browse field processed there. Work is supported by Woodside's surprise \$2.5 billion equity raising in February, which also funded the acquisition of an additional 50 per cent stake in Scarborough and the development of an oil project in Senegal.

On the exploration front, Woodside reported it found oil in two exploration wells offshore Gabon, where the results are still being assessed.

It is also about to kick off a three-well drilling campaign off Myanmar, involving two exploration wells followed by an appraisal well in the third quarter, while a deep well in Morocco is under way.

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