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Scarborough project a fair play for Woodside

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Woodside Petroleum chief executive Peter Coleman says the company has already had early discussions with potential customers interested in sourcing liquefied natural gas from its newly acquired Scarborough project off Western Australia.

After releasing the company's latest quarterly production report yesterday, Mr Coleman told The Australian the integration of Scarborough into Woodside was making rapid progress.

"We've been up in Japan and China talking to potential buyers and they're obviously very interested," Mr Coleman said.

"We've been talking to contractors, those that can participate in the building of the plant and the offshore, and there's keen interest in that area.

"The really good thing is we've been able to move it out of the deal team, which is by definition a limited team, and it's out into the broader team and to date the surprises have been more on the positive side rather than the negative." Woodside formally completed the \$US444 million (\$572.7m) acquisition of ExxonMobil's 50 per cent stake in the large but remote Scarborough field on March 29, adding to the 25 per cent stake it bought from BHP in September.

The company is proposing to incorporate Scarborough gas into its existing Pluto LNG plant, bringing a meaningful growth option into a project pipeline that has long looked light-on. It appears to have leapfrogged over the long-awaited Browse LNG project in Woodside's list of development projects.

LNG prices have started to recover in recent months on the back of a strengthening oil price. A supply glut that had been widely expected by many observers has also been comfortably absorbed by the market, thanks largely to rising demand out of China for cleaner energy sources.

The improving market conditions were reflected in Woodside's latest quarterly figures, which showed a slight increase in output and a big improvement in revenue. The \$US1.17 billion in revenue for the March quarter was up from \$989.7m in the December quarter and \$US902.4m a year ago. Better-than-expected numbers out of Pluto helped make up for slightly weaker progress in the ramp-up of the Wheatstone LNG project, in which Woodside has a 13 per cent stake. Wheatstone's second LNG train is due to produce its first LNG this quarter.

Mr Coleman said the arrival of Scarborough into the company, along with the progress towards development of its SNE oil project in Senegal, had added a spring to the step of Woodside employees.

"Being in the gym practising is nothing like being out on the field of play, so there's a lot of anticipation in the office now about the big game we have ahead of us," he said.

Beyond exploring the technical merits of Scarborough, Mr Coleman also faces the task of convincing the market of the project's merits.

The growth plans are expected to be front and centre at Woodside's annual investor day next month, where new Woodside chief operating officer Meg O'Neill will also make her first public appearance.

Analysts at both Macquarie and RBC yesterday both reiterated their “underperform” recommendations on Woodside given the long-dated nature of the company’s growth projects.

“We do not currently carry a value contribution for Browse or for Scarborough with (a final investment decision) still three to four years away, (front-end engineering and design) studies to be completed as well as gas marketing and financing to be arranged. We think it is too early for investors to pay for this potential growth,” RBC analyst Ben Wilson said. Shares in Woodside closed 1.1 per cent higher at \$30.72.

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