FINANCIAL REVIEW

SE Companies and Markets

HD **Buyers vie for Shell assets as BP mulls sale**

BY Angela Macdonald-Smith, James Chessell and Sarah Thompson
WC 1,137 words
PD 8 January 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 13
LA English


LP

Private equity firm TPG is in the final stages of a $3 billion auction for Royal Dutch Shell 's refining and retail business in Australia along with a consortium involving Macquarie Group .

There is also speculation a third party – potentially an Asian energy business – is also vying for the Shell assets, including its refinery in Geelong, several import terminals and a network of 900 branded service stations.

TD

BP is also thought to be mulling the sale of its downstream business in Australia as the oil majors seek to channel investment into higher-returning businesses in oil and gas production and bigger growth markets.

"Production growth or lack thereof is the key focus of investors in the super-majors and, therefore, money is always going to be ushered more and more upstream away from the downstream," said Credit Suisse analyst Mark Samter.

Shell and BP have declined to comment on speculation about the potential sales. But a BP spokesman said that only in December the British parent company had sanctioned $US150 million ($168 million) of investment for 2014 in the Australian retail business, while maintenance work due this year at its Kwinana refinery is expected to cost tens of millions of dollars.

Australian refineries have delivered sub-standard investment returns in the past five years. However, there is speculation an Asian energy business such as Thai-owned PTT might be interested.

The Geelong refinery, which produces 110,000 barrels a day, has previously attracted attention from Chinese interests in the sale process run by Merrill Lynch .

It is believed Shell's retail partner in Australia, supermarket chain Coles, is monitoring the negotiations.Refineries hard to sell

Analysts said the distribution and retailing end of the majors' Australian businesses would be of significant interest to new investors, particularly private equity, but the refineries would be more problematic to sell.

"Now Australia is a net importer of fuel, we are very attractive from the point of view of regional and international investment in the Australian market for those companies, unlikely BP and Shell which are really upstream companies rather than downstream marketers," said Nic Moulis, chief executive of the Australian Convenience and Petroleum Marketers Association.

He said Mobil had kicked off the trend several years ago for energy majors to exit the "chips and chocolate" business of fuels retailing in Australia to focus on exploration and production, and it was unsurprising Shell and BP were thinking of following suit.

Mr Samter said petrol and diesel importing and retailing was a "very obvious market for private **equity** to be looking at" given "enormous synergies" on offer from parts of the business.

"There's a serious appetite for these types of assets, they are very high quality, defensive, pretty high visibility; It's a competitive market but it's a rational market," he said, noting Australia stands out among developed countries as still having growth in fuels retailing.

Australia's fuels production and retailing sector has seen massive change over the past decade, with the closure of two refineries and a third to be closed next year, and changes in the ownership of petrol stations.Pace of change accelerates The changes have accelerated in the last 18 months, with the entry of giant commodities trader Trafigura into petrol retailing in Australia through more than $800 **million** of acquisitions by its Puma arm, owned 40 per cent by Angolan state **oil company** Sonangol.

That was preceded by the takeover of Freedom Fuels by Japan's Idemitsu Kosan , while a **sale** process of another independent fuels marketer, United Petroleum is under way, in addition to the Shell transaction.

The Australian sharemarket has also seen the entry of a new listed fuels retailer, Z **Energy**, formed from the old Shell retail business in New Zealand, which was taken over by New Zealand Superannuation Fund and Infratil.

Caltex Australia , the only locally listed refiner and marketer, is in the middle of a major transformation, with its Sydney refinery to be converted into an import terminal this year and an increased focus on importing, distribution and marketing.

Caltex last month revealed its refining business would lose about $175 **million** in 2013, with the deficit focused on the Kurnell plant in Sydney that is slated for closure, while the Lytton plant in Brisbane remained in the black.

Australia's small, outdated **oil** refineries have become increasingly uncompetitive against new mega-plants coming into production in **China** and India, while the strong dollar and high costs have added to their pain. The combined capacity of Australia's remaining six refineries is smaller than India's Jamnagar refinery in a business where economies of scale are crucial.Commitment to buy

Sources have signalled that under pressure from potential buyers, Shell widened out its **sale** process for the Geelong refinery, which it put up for **sale** in April, to include the rest of its downstream business in Australia. The refinery comes with a commitment by Shell's marketing business to buy the production.

"Refining is tough in Australia and it will only get tougher from a relative cost advantage versus other big refineries in Asia so I'**m** not surprised it is a struggle," Credit Suisse 's Mr Samter said.

"If someone wanted Geelong as an import terminal, then they're probably not willing to pay anything to get the site because they know they've got the costs of conversion."

Converting the site could cost similar to Caltex's costs for Kurnell, which involves $430 **million** of closure costs and $250 **million** more to switch the plant to an import terminal.

Selling the Australian downstream assets fits with Shell's plans to sell about $US15 **billion** of assets worldwide in the next two years. That asset **sale** drive is also expected to include the major's remaining 23.2 per cent **stake** in Woodside Petroleum , worth about $7 **billion**.

Mr Moulis said he expected different types of investors would be interested in the Shell and BP downstream portfolios given their differing structures, with Shell's retail business mostly involving co-branded sites owned by Coles, while BP's involves more **company**-owned sites, a broader distribution network and two refineries.

"Once the Geelong refinery is either closed or sold, it seems to me that the Shell business would be reasonably attractive in its returns for a private **equity** investment or a Macquarie-type investment process because you've got a large well-known tenant in the majority of your retail sites," he said.BP in November signalled it would cut about a quarter of its staff at its Australian headquarters in Melbourne, involving the loss of about 300 jobs, as it sought to revive its competitiveness in the tough fuels retailing sector

**CO** mcqbnk : Macquarie Group Limited | bp : BP PLC | rnlp : Royal Dutch Shell PLC

**IN** i652 : Gasoline/Service Stations | iretail : Retail | i64 : Retail/Wholesale | i654 : Specialty Stores | i1 : Energy | i13 : Crude Oil/Natural Gas Upstream Operations | i814 : Banking | i831 : Financial

 

Investments | i83101 : Investment Banking | ibnk : Banking/Credit | ifinal : Financial Services | iinv : Investing/Securities | iioil : Integrated Oil/Gas

**NS** ceffic : Corporate Restructuring | c182 : Physical Asset Transactions | cacqu : Acquisitions/Mergers | ccat : Corporate/Industrial News | reqrre : Suggested Reading Retail | c11 : Plans/Strategy | c18 : Ownership Changes | c181 : Acquisitions/Mergers/Shareholdings | cactio : Corporate Actions | ncat : Content Types | nfact : Factiva Filters | nfcpin : C&E Industry News Filter | redit : Selection of Top Stories/Trends/Analysis | reqr : Suggested Reading Industry News

**RE** austr : Australia | victor : Victoria (Australia) | apacz : Asia Pacific | ausnz : Australia/Oceania

**PUB** Fairfax Media Management Pty Limited

**AN** Document AFNR000020140107ea1800008

 