FINANCIAL REVIEW

Chanticleer

Santos deals with debt monkey

TONY BOYD

1453 words
10 November 2015
The Australian Financial Review
AFNR
First
48
English

Santos shareholders have paid a heavy price to get the debt monkey off the **company**'s back.

The **company**'s earnings will now be spread over 1.6 **billion** shares instead of one **billion**. That is an extraordinary dilution of existing **equity** interests to cover the mistakes of the past.

But directors of the **company** led by executive chairman Peter Coates took the view that it was fair to shareholders to raise $3 **billion** in **equity** to slash the **company**'s $8.8 **billion** debt pile rather than sell off a similar amount of assets.

One relatively small asset has been sold, a 35 per cent interest in the Kipper Field for $500 **million**. That asset pales into insignificance when compared with the value of other assets that might have been sold, particularly the 13.5 per cent interest in the PNG LNG...

The **company** raised another $500 **million** with the **sale** of 7 per cent **stake** in the **company** to little-known **Chinese** private **equity** group Hony. It will participate in the rights issue and therefore has a "blended" entry price of $5.91 a share.

...

Experts in the debt capital markets reckon the **company** took the easy option when it turned to investment banks, UBS, Deutsche and Citi, for an underwritten rights issue of $2.5 **billion**.

At least one respected source said that the **company** could have filled the $700 **million** short-term hole in its cashflows with a debt issue. That would have avoided the need to issue new **equity** and dilute **equity** holders.

But this strategy carried considerable risks given the possibility that the **oil** price could fall further. Trying to use more debt to squeeze through until next year when more cash starts flowing from the GLNG project in Gladstone was obviously viewed...

Risk aversion around the Santos board table is understandable given the **company** had a dearth of it when the **oil** price started to fall last year.

...commodity. The combination of an explosion in production of unconventional gas in the United States and OPEC's unwillingness to be the swing producer led to a halving of the **oil** price.

Santos now includes plenty of **oil** price sensitivity analysis in its presentations to the market. In fact, it warned on Monday that a $US5 fall in the **oil** price would mean non-cash impairments at Santos of about $1.2 **billion** before tax.

... alternative to the capital raising strategy was to sell a portion of the crown jewels, which is the PNG LNG project. A look though of the Woodside bid for **Oil** Search says this was worth at least $6.5 **billion**.

...

There is talk in the market that Santos had a $4.5 **billion** non-binding offer for a chunk of its PNG LNG **stake** from a large Japanese group.

The **sale** of that asset would have avoided a rights issue and placement to Hony. But would shareholders have been better or worse off?

While the **sale** of a big chunk of PNG LNG would have limited the growth options it would still have left a **company** with about $2 **billion** in earnings before interest, tax, depreciation and amortisation.

Applying a 4.5 times earnings multiple suggests an enterprise value of $9 **billion** to $10 **billion** on 1 **billion** in shares. That looks a lot better than the same amount of earnings on an enterprise value of $14 **billion** with 1.6 **billion** shares on issue.

The truly conservative would argue that the **company** still has too much debt even after the capital raising, placement and Kipper **sale**.

...

Investors coming into stock now are probably coming in at or near the bottom of the **oil** price commodity cycle. Industry players have forecasts for the **oil** price of up to $US90 a barrel over the next three years while the more bearish investment banks are tipping up to $US75 a barrel.

... the first simple corporate bond to be listed on the ASX is a landmark transaction because it brings alternative fixed income products into the reach of retail investors. Simple corporate **bonds**, which were made possible as a result of legislation passed last year, can be issued with reference to previously disclosed material. A single prospectus can be used for up to three years. Also, the legislation removed the deemed civil liability that applies to **company** directors and clarified the reasonable steps required to satisfy the due diligence in respect of directors' criminal liability.

Simple corporate **bonds** were one of the many recommendations put forward in Mark Johnson 's report on Australia as a financial centre.

Australian Unity aimed to raise a minimum amount of $200 **million**. Thanks to oversubscriptions it raised $225 **million**. The deal was done at 280 basis points over the bank bill swap rate.

It is not surprising that National Australia Bank was the joint arranger and book runner for the unsubordinated and unsecured **bonds**.

...

Australian Unity plans to use about $114 **million** of the funds raised in the bond issue to pay the NSW government for Home Care Service of NSW.

...

... capital of about 17.8 per cent. KPMG argues that this is holding back the productive capacity of the sector. The mutuals sector has total capital of $7.6 **billion**. If it were to operate with a capital adequacy ratio of 13.5 per cent it could lend an extra $25 **billion** in home loans.

...

Those with a glass half full approach to life will look favourably on the back door listing of Israeli waste water processing **company** Emefcy Ltd.

The Israeli **company**, which will be backed into the former Perth based industrial services **company** Savcor Group , is seeking to raise between $13 **million** and $16 **million**.

Emefcy's chief executive Eytan Levy last week provided a first hand demonstration of the **company**'s technology to a trade mission led by assistant innovation minister Wyatt Roy and Gen Y entrepreneur Marita Cheng. The **company** has two patent protected technologies. The first and most promising is a spiral aerobic biofilm reactor (SABRE) which has half the operating costs of other plants and reduces the **energy** costs in converting waste water by 90 per cent.

...

Document AFNR000020151109ebba0000c

Search Summary

Text	((chin* or hong kong)) and (((residential or site or commercial) and (casino resort or island or hotel or apartment or park or estate or property) and (group or firm or company or board or entitys) and (transaction* or purchase* or sale or sold or buy)) or ((uranium or wind or gold or solar or ore or copper or energy or alumina or iron or lead or coal or oil) and (bonds or acquisition or merge or purchase or sale or stake or equity) and (million* or billion* or B or M) and (operations or mining or firm or company)) or ((dairy or cheese or butter or milk or bread or wine) and (sold or buy or sale or equity or stake or merge or acquire) and (brand or company or business or group or firm or board) and (million* or billion* or B or M))) not (terrorism or war or navy or stock market or share market or Wall St or Wall Street or Forex or Stock Exchange or rst=asxtex) and re=austr
Date	04/11/2015 to 10/11/2015
Source	All Sources
Author	All Authors
Company	All Companies
Subject	All Subjects
Industry	All Industries
Region	All Regions
Language	English
Results Found	243
Timestamp	24 August 2017 14:06