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HD **It's a high-Stokes game or bust**

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It was a "the price is right" moment for West Australian **billionaire**Kerry Stokes when his Seven Group Holdings offered to outlay $400 **million** to buy and revive the ailing **oil** and gas **company**Nexus **Energy**. The deal conjures all those words used to described low-ball offers - cheap, opportunistic and cheeky - and only capable of success because Nexus is in such a financially parlous shape that it has two choices: Stokes or bankruptcy.

Nexus has been hanging on to solvency by a thread for several months trying to restructure its finances, including selling assets or raising fresh **equity**. But an electrical problem that caused it to shut down its only cash-producing asset, the Longtom gasfield in Bass Strait, tipped the balance.

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Seven Group seized the opportunity to pick up Nexus, which owns some good prospective assets off Western Australia, for 2¢ a share, - which represents about a third of the price at which the shares last traded on the Australian Securities Exchange.

And as for potential skeletons inside Nexus' closet, Seven has that covered.

Until a few months ago, Seven Group's chief executive, Don Voelte, was Nexus chairman so he is particularly well acquainted with the value of its assets.

The deal also involves Seven extending an immediate bridging loan lifeline and repaying Nexus' bank loans.

The fly in the ointment is that Seven must also convince bondholders to accept its proposed discount offer of 89¢ in the dollar. Two-thirds of these bond investors have agreed but at least one major **Hong Kong**-based hedge fund, Tor Investment Management, still seems to be holding out.

The risk for Tor in snubbing Seven's offer is that Nexus proceeds to liquidation and ultimately the bondholders receive even less.

The bid would value Nexus' **equity** at less than $30 **million** but Seven's deal also involves paying out $50 **million** to senior debt holders, $100 **million** to the noteholders and a capital expenditure commitment of $235 **million**.

Arguably the Nexus assets have value beyond what Seven is offering but selling them while in a liquidation auction is a less-than-ideal outcome. For example the value of Nexus' 15 per cent Crux **stake** was implied at $560 **million** in a 2012 sell-down of its once-larger **stake** in the project to Shell.

But Nexus said it had already gone down the path of trying to offload various investments and had no success within the bank-imposed time frame.

The Nexus board has agreed to the offer and to comply with several conditions, including not to hawk the **company** or its assets to anyone else.

For Seven, acquiring Nexus is a low-cost way of getting its foot in the door of the energy industry and at the same time making better use of the skills of its chief executive and former oil and gas executive, Don Voelte.

Stokes lured Voelte into the camp several years ago to run Seven West Media - which was always considered an awkward use of his skill set.

He ultimately moved to Stokes' head-listed company, Seven Group Holdings, which has investments in the media group as well as WesTrac, which runs a Caterpillar equipment franchise.

While Seven Group Holdings has plenty of cash, its profit performance has been under pressure primarily because of the decline in contribution from WesTrac, which supplies equipment to the mining industry. At the annual meeting last year, Stokes promised the company would be looking for fresh investments in other industries.

Oil and gas - along with healthcare, education and agriculture - were all on the list as potential ways to tap into the growing Asian markets.

Seven Group's chief operating officer, Ryan Stokes, said the group was looking to industries in which Australia had a competitive advantage and was attracted to the longer-term dynamics of oil and gas as energy consumption would increase worldwide and there would be a shift from less environmentally friendly sources.

Savings call

It won't come as a surprise that the Australian Bankers Association's submission to the financial system inquiry honed in on how the government should help boost the level of bank deposits in the local system by making saving as tax effective as investing in shares.

This has been a real bugbear for banks for years but has become more so since the global financial crisis exposed just how difficult and expensive it could be for banks to rely on offshore markets for funding.

At the very least the global financial crisis gave the banks a platform to lobby the government to look more favourably at making savings more tax effective.

The banks hate the need to compete hard for deposits - it makes them expensive. But regulators and ratings agencies love them.

But in reality governments have shown no appetite for making bank deposits more tax friendly and it would be surprising if the man running the financial services inquiry, David Murray, was inclined to push that line. He is more likely to come up with some suggestions that could gain traction with Canberra.

From the banking industry perspective (more particularly from the large four), there is probably little to be gained from tinkering too much with the status quo.

The smaller banks want a more level playing field when it comes to their cost and access to funding, so for the second-tier banks there will be competition issues.

But the big players have demonstrated clearly since the GFC, and even in a low-credit-growth environment, that the present settings allow them to make stellar and reliable returns. And their combined market share has risen significantly over the past five years.

Of course there are other funding sources that the banks would like to see enhanced or encouraged - the Australian corporate bond market, the government bond market and broader use of securitisation.

But the real pot of gold for banks is to encourage the public to use deposits.

The difference between credit demand and money supply within Australia now sits at more than $600 billion. Of this more than $390 billion is raised by Australian banks in overseas markets, with about $120 billion of that total renewed each year.

So getting a bigger portion of that supply from depositors is at the top of the industry's wish-list.

Placing one's money in the sharemarket has obvious risk drawbacks but clear tax advantages over bank deposits, thanks to dividend franking.

Similarly, superannuation is far more tax effective than placing money on term deposit in a bank.

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