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HD **Roc Oil chief puts job on line to tie up with Horizon**

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Merger Roc Oil's biggest shareholder is battling union with Horizon Oil.

Roc Oil chief executive Alan Linn has so much belief in a planned $800 million merger with Horizon Oil he is prepared to sacrifice his job for it.

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"This is such a good deal for our shareholders that it's probably the only deal that I've looked at that I'm willing to lose my job over," Linn told The Australian Financial Review in Sydney.

It could all be for nothing if the company's biggest shareholder follows through on a threat to call an extraordinary general meeting with a view to spilling the board.

The risk then is that Roc chairman Mike Harding, the intended chairman of the merged company, is himself ousted.

Linn initiated talks about two years ago about a potential "merger of equals" between Roc and Horizon, its partner in an oil venture in China and the owner of some promising resources and exploration ground in Papua New Guinea.

After deciding then that PNG was too risky for Roc, the development of PNG's gas industry means the timing is now deemed right.

The premise from the start was that Roc would have to be "on top" in the merger, to preserve valued relationships with major partners such as Chinese oil giant CNOOC and Malaysia's national oil company Petronas.

That meant having Harding take the chairman role at the merged company, with Linn, determined not to let ego destroy the deal, giving up the CEO role to his Horizon counterpart Brent Emmett in the horse-trading to sort out key positions.

"It would be nice to be the CEO but in being the CEO of Roc I have to act in the best interests of shareholders and I believe I have," he says. "It was a compromise; it's one that I'm comfortable with."

It's a decision that several Roc investors aren't happy with, but not the main reason the deal has become controversial.

Rather, it is the lack of opportunity for Roc shareholders to vote on the zero-premium transaction that has most angered circa 20 per cent Roc shareholder Allan Gray, which has threatened to call an EGM to potentially force a vote on the board over the deal.

Allan Gray fund manager Simon Marais has been blunt about his opposition to the merger, which he believes sells Roc short, while seeing little merit in the combination of assets. Even though Australian Securities Exchange regulations allow for a listed company to proceed with a scrip takeover without getting its shareholders approval, Marais says they should be offered the opportunity. In contrast, Horizon shareholders will vote on the merger.

Roc is putting in most of the assets and the cash but will end up with just 42 per cent of the merged **company**, which will have interests across Malaysia, Australia and New Zealand, as well as **China** and PNG.Surprised by biggest investor's objection

Harding and Linn admit they were surprised by the vehement objection to the deal from Roc's biggest investor, saying they had flagged with the market the **company**'s interest in value-adding transactions.

But their primary task is to head off any board spill, which would not in any case prevent the deal going ahead, and garner support for the merger.

"If we get to a point of spilling the board – and hopefully we won't – we've lost all reason why we're doing the deal." says Harding.

With a merger implementation deed signed with Horizon, Roc is tied into a process that should culminate with the merger in early August. Offering Roc shareholders a vote wouldn't change that. "You end up with this situation where because you tried to set it up to get the best outcome you end up with the worst outcome, and that's not a path we would recommend to shareholders," Linn says.

The strategy so far has been intense engagement with shareholders, including Allan Gray, to ensure they understand the merits of the deal, with a promise of an opportunity at the May 27 annual shareholders meeting for full discussion.

Harding and Linn point to the upward move in the share prices of both Roc and Horizon since the deal was announced as demonstrating investor support. The respective moves have also broadly stayed in tune with the merger ratio.

Harding says the "cracking" deal provides Roc with a set of assets it could never have afforded to buy. With a market cap of just $300 **million**, Roc's ability to grow was limited and was inevitably "going from hand to mouth", despite its successful venture in **China** and deals such as a recent investment in Malaysia that boosted its reserves by 70 per cent.

In the Horizon merger, Roc will add reserves at "half, if that" of the $20-a-barrel price it paid in the Malaysian deal, Harding says. "You're getting cheap barrels, good barrels; you're getting short-term exploration assets and longer-term assets with the gas, and it's a great fit."

Linn believes the merger will act as a "circuit breaker", bringing the scale that will help address the issue of both Roc and Horizon being undervalued on the market. It is a problem endemic throughout the small-cap **oil** and gas space in Australia and Britain, where companies are trading at just 50-to-60 per cent of their net asset value, compared to about 90 per cent for larger companies, he says.

But companies expect full value for assets up for **sale**, so a corporate transaction makes more sense.

As for Linn's future, he will stay for about a year to head up Roc's growing business in Malaysia and Myanmar if the merger goes ahead, then looks set to stay in the industry.

He has already had approaches since the April 29 announcement of the merger.

"I still have a passion and enjoyment for the business that hasn't diminished over the years," he says. "I need to work for a few years yet: I've got seven kids and the youngest is four, so i've got a lot of education to pay for!"

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