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HD **Australian Minnows Merge Into Asia-Focused Upstream Play**

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Sydney-listed Roc Oil and Horizon Oil have agreed to merge into a single "prominent" Asia-focused exploration and production company that will attract more attention from investors, in what marks the biggest friendly Australian oil and gas merger since at least 2008. But their joint announcement on Tuesday did not impress the market, as both firms saw their share price fall on the news.

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The merger, which is expected to be completed in August, will see Horizon Oil shareholders receive 0.724 Roc shares for each Horizon Oil share that they own. The new entity has yet to be given a name but will have a combined market capitalization of around A$800 million (US$740 million), with assets spanning Southeast Asia, China and Australasia, and production of slightly more than 15,000 barrels of oil equivalent per day, which is expected to peak at around 20,000 boe/d by 2020. The venture will hold net proved and probable (2P) reserves of 36.9 million boe, approximately 95% of them liquids, and net 2C contingent resources of 120.7 million boe.

"What we are looking to deliver here is a regional operator with skills," Alan Linn, the current chief executive of Roc, told a conference call. "The Americans used to have a number of companies that would have boasted that position; most of those have now gone back to do shale gas in America and there is a big gap in the market for a good-size operator to build strong and attractive business in the Asean (Association of Southeast Asian Nations) and China regions. I feel this is what we have the capability to do with that merger," he added.

But filling such a void is a tall order for two minnows -- and the fall in their share prices showed shareholders harbor doubts about their ability to succeed. Horizon's shares took the biggest beating, closing 4.05% down at A$0.355, while Roc lost 1.1% to settle at A$0.45.

Roc and Horizon are not complete strangers, as they partner one another offshore China in the Gulf of Tonkin's Block 22/12, whose gross output of around 13,300 b/d of oil accounts for most of their respective production (IOD Jun.21'13).

The merger will also bring together their other Asia-Pacific assets, which include Horizon's 10% stake in New Zealand's Maari field, and Roc's 42.5% stake in Australia's Cliff Head project. Exploration and development-wise, Horizon brings several assets in Papua New Guinea to the table, while Roc adds recently acquired enhanced oil recovery (EOR) assets in Malaysia, where it also operates a risk service contract, and a stake in a shallow-water block in Myanmar it bagged in the country's first offshore bid round (IOD Mar.26'14) (IOD Mar.27'14). "There will be, in effect, an increase in the size of the portfolio, which will reduce risks," Horizon Chief Executive Brent Emmett said.

Malaysia -- thanks to Roc's EOR projects currently under assessment -- and Papua New Guinea appear to have the most upside in the short term. Papua New Guinea's approval of a petroleum development license for the Stanley condensate project, in which Horizon will hold 30% after a government back-in, is expected to be finalized in the coming weeks. The onshore field will produce more than 4,000 b/d of condensate (IOD Apr.15'14).

Linn and Emmett defended the diverse portfolio of their new entity, which contrasts against the focus on a single play seen in some previous Australian mergers. These often centered around the Cooper Basin, as was the case for the $86.45 million Senex-Stuart Petroleum merger in 2011.

"Shareholders are looking for significant returns on their E&P investments -- 30-40% internal rates of returns -- and you will not get those kinds of returns in Australia," Emmett said. "They are available in Asia but you get them there because there are some risks attached to them. That is why you don't want to be in some particular area -- you want some diversification to manage the risks."

Maryelle Demongeot, Singapore

CO rocoil : Roc Oil Company Ltd

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