SE Features
HD Low Valuations Fuel Resurgence in Australia Corporate M&A
WC 874 words
PD 11 June 2014
SN Energy Intelligence Finance
SC IPF
LA English

LP Upstream consolidation is on the rise in Australia, and coming in all shapes in sizes, from all-share mergers to a looming administrative buyout to a downright hostile takeover. Experts see more corporate oil and gas M&A on the horizon, too, with this year potentially eclipsing 2011's headline A$1.5 billion (US$1.4 billion) takeover spend (EIF Nov.16'11).

TD Unconventional resources were the name of the game in 2011, with Santos buying New South Wales coalbed methane (CBM) producer Eastern Gas, Arrow buying Bow Energy, and Beach making a move for Adelaide Energy, which had shale interests. By contrast, 2014 has had no specific resource theme, with conventional oil and gas assets in Asia-Pacific, Australian CBM, unconventional gas in Australia's onshore Cooper Basin and conventional gas offshore all attracting interest. The ribbon around the deals is instead the view that Australian independents -- like those in Europe -- are undervalued (EIF May7'14). But there's a twist: "We lack exploration success stories in Australia to make the companies attractive," Damon Neaves, managing director of Sydney-listed, Africa-focused PuraVida Energy, tells EI Finance.

With exploration costs on the rise, small companies are on the hunt for partners. This is the case for Roc Oil and Horizon Oil, which agreed a scrip merger in April aimed at turning out a single significant conventional oil and gas player in Southeast Asia, China and Australasia. The merger, which will see Horizon shareholders receive 0.724 Roc shares for each Horizon share they hold, is worth an estimated total A$578 million. The new firm's combined market capitalization will start around A$800 million, but the companies hope to grow that to A$1.1 billion by 2015.

Drillsearch meanwhile made a A$33 million takeover offer last month for the 80.1% of shares it does not own in minnow Ambassador Oil and Gas -- a deal meant to help consolidate assets in the Northern Cooper Basin, where it is exploring for unconventional wet gas. But in a sign that M&A markets are heating up, Drillsearch's offer was trumped Tuesday by US shale independent Magnum Hunter Resources, which is offering A$48 million for all of Ambassador (EIF May7'14). Magnum Hunter is already a major shareholder in New Standard Energy, which is partnered with Ambassador in Cooper Basin shale, notes RBC Capital Markets.

The jury is still out on whether Chinese Landbridge Group's hostile takeover move for Westside Corp. will succeed. Westside's board already rejected Landbridge's A$0.40 offer, calling it underwhelming in view of the company's recent deal to supply Gladstone LNG up to 65 terajoules (60 million cubic feet) of gas per day for 20 years, with oil-linked pricing from 2016 onward. Westside has indeed received higher-priced takeover offers before -- including from state PetroChina in late 2012 -- but none ever materialized.

Another corporate acquisition looking even more precarious is Seven Group Holdings' (SGH's) offer to buy Nexus Energy, whose only producing asset, the Longtom gas field offshore Victoria, was taken offline in February. SGH's offer amounted to A$210.6 million including debt assumption, litigation costs and shares, according to the Derrick PLSM&A database, but the share element itself equates to just A$0.02 per share -- well below the A$0.06 Nexus traded at before the Longtom outage, provoking the ire of some shareholders. The result is that more than 25% of Nexus shareholders have voted against the takeover by proxy -- enough to withhold approval. But SGH has already acquired most of Nexus' debt and said it will seek to acquire the firm through the administration process if rejected -- a route that would pay out no compensation to shareholders.

Regardless of how the latter two deals shake out, additional small corporate deals are likely underway in Australia's upstream, Canaccord Genuity senior oil and gas analyst Johan Hedstrom tells EIF. "In my 30 years as an analyst, I have never seen so many companies whose share price has fallen so much that their market cap has become irrelevant," Hedstrom says, noting that around 50 companies have seen their market cap fall below A$50 million, leaving them with little cash to finance exploration. Tim Woodall, managing director of Perth-based Miro Advisors, sees two key drivers of future corporate M&A: 1) increased consolidation in the Cooper Basin as parties weigh the impact of increased gas prices in Eastern Australia, and 2) a resurgence of deals among Asia-focused Australian companies that can otherwise not fund their capital expenditures.

Bigger deals could also be in the offing. PNG-focused, Sydney-listed Oil Search is regularly discussed as a possible takeover target -- although the start-up of Exxon Mobil's PNG LNG in which Oil Search is a partner has pushed the firm's market cap to a robust A$14.6 billion (EIF Mar.5'14). Arrow LNG -- the ill-fated venture between Shell and PetroChina -- also hangs in the shadows, with the firm's future still undecided despite more than $7 billion sunk into the CBM company.

CO arowen : Arrow Energy Limited | cnpngc : China National Petroleum Corp | pechin : PetroChina Company Limited | rnlp : Royal Dutch Shell PLC

IN i13 : Crude Oil/Natural Gas | i1 : Energy

NS c181 : Acquisitions/Mergers/Takeovers | cacqu : Acquisitions | c18 : Ownership Changes | cactio : Corporate Actions | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfcpin : FC&E Industry News Filter

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB Energy Intelligence Group Inc.

AN Document IPF0000020140711ea6b00004