FINANCIAL REVIEW

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HD WestSide reveals surging gas price

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LP Queensland coal seam gas target WestSide Corporation has revealed just how much Santos's $US18.5 billion ($20 billion) GLNG venture has agreed to pay for its gas, showing that wholesale prices on the east coast are surging quicker and further than anticipated. In documents released on Friday in defence of a $178 million takeover bid from China's Landbridge, WestSide said it would sell gas to GLNG in 2017 at about $9.28 a gigajoule, assuming benchmark crude oil prices around current levels of $US110 a barrel.

WestSide and Santos had declined to reveal the prices agreed under their 20-year gas sales contract, inked in March, which are commercially confidential. The sales price for the gas is about three times higher than WestSide receives from its customer AGL Energy , the company said.

TD It is also above the top end of the $6 to $9 a gigajoule range widely cited as the new norm for wholesale prices on the east coast, where domestic supplies are being squeezed by the demand from the three Queensland LNG ventures.

WestSide is using the gas contract with GLNG to underpin its argument that Landbridge's offer undervalues the company. WestSide's assessment that the 40¢ a share offer undervalues the company is backed up by some brokers, with Edison Investment pointing to "tremendous value" to be realised from the company's gas reserves.

Meanwhile, Taylor Collison, which participated in WestSide's $10 million equity raising last October, has put a 76¢ target price on the stock. WestSide's shares closed on Friday at 41¢.

However other analysts are voicing doubts that WestSide will be able to ramp up production from its Meridian SeamGas venture west of Gladstone to be able to take full advantage of the contract terms. Production at Meridian, which is 49 per cent-owned by Mitsui, is running below capacity at about 12 terajoules a day. Shares in the CSG producer on Friday closed for the first time above Landbridge's offer price as WestSide said it was in talks with potential rival bidders. WestSide chief executive Mike Hughes signalled the company fielded approaches from unexpected parties as it seeks to fend off Landbridge.

The company urged shareholders to reject Landbridge's offer as "inadequate, unsolicited and opportunistic." However three of its top 10 shareholders have accepted an off-market offer by Landbridge for their shares, making the Chinese company now its largest shareholder, with 19.9 per cent, overtaking New Hope Corporation .

CO agkega : AGL Energy Limited | sants : Santos Ltd

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