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HD Investors unimpressed by Santos' fix

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LP Resources - Disappointment at $3.5b rescue plan

Underwhelmed investors have expressed disappointment in Santos' $3.5 billion rescue plan and its reliance on a highly dilutive equity raising near the bottom in the oil price cycle.

TD The move prompted questioning from one investor whether the board's belated urgency under executive chairman Peter Coates to reduce its $8.8 billion debt pile had forfeited a stronger outcome, had it run an asset sales process.

"I can't help but wonder if they had been a bit more patient whether they could have lined up the right buyers for some of these assets," said a portfolio manager, who holds shares in the oil and gas player.

"What they have done has not been destructive, as such, because the way the rights issue is structured is protecting existing shareholders, but we are in a world that is dominated by short-terminism; they felt the need to put this process to an end and to secure the balance sheet."

The 11-week-long strategic review ended with one divestment: a 35 per cent stake in the Kipper gas project to Japan's Mitsui for $520 million. Otherwise, it relies on a $2.5 billion entitlement offer priced at a 25 per cent discount to the benchmark share price and a controversial $500 million placement to Hony Capital that delivers the Chinese firm a stake almost large enough to block a takeover.

While Santos' growth strategy for liquefied natural gas remains intact, Bernstein analyst Neil Beveridge criticised the "lack of creativity" in the outcome, describing it as one that "should have been obvious to most at the start of the year".

Santos shares collapsed from $14-plus in early September last year to $3.98 about 12 months later as crude oil prices dived. The stock has been halted from trading for the institutional part of the 1-for-1.7 entitlement offer, with stock priced at $3.85, compared with Friday's close of $5.91.

A reasonable take-up of almost 90 per cent by institutions left Citigroup , Deutsche Bank and UBS seeking bids in a bookbuild for about $146 million of shares as of late Tuesday.

The market is now keen to understand what incoming chief executive Kevin Gallagher , currently heading up Clough and once an internal candidate for the top job at Woodside Petroleum , has in mind for Santos, where net debt will fall 30 per cent to $6.2 billion. The Scot is credited with protecting the engineering firm from the worst of the downturn in the services sector, although his focus on productivity and costs drove overseas analyst Bernstein to describe his appointment at Santos as "boring" and signalling "a lack of ambition" by the board.

But Credit Suisse analyst Mark Samter pointed to "unequivocally positive feedback" from Mr Gallagher's leadership at Clough and suggested changes ahead.

CO sants : Santos Ltd

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