International Gas Report

SE Analysis
HD Australia set to be takeover hotspot
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LP After more than a year of depressed crude prices, oil and gas companies are making Australia a takeover hotspot, seeking to reap rewards from cheaply-priced assets when markets ultimately rebound.

If some of the deals -- the major ones centered around Santos and Oil Search -- go through, they are expected to shake up the region's oil and gas sector, giving some participants a stronger foothold in the country.

TD "Every major downturn in oil price over the past 50 years has been accompanied by an M&A cycle," Bernstein Research analyst Neil Beveridge said. "While it may still be too early to call this the start of an M&A cycle, any increase in M&A activity will suggest that the industry believes that the bottom of the cycle is approaching."

Beveridge anticipated that activity levels would pick up further in 2016.

LNG is one area where there has been a significant increase in M&A activity this year, with more than $100 billion in proposed deals, or half the oil and gas sector total. From a record high of close to $19/MMBtu in 2014, LNG prices have plunged more than 60% on the back of growing supply in the Pacific and weak demand from traditional Asian buyers.

The Platts LNG netback FOB Australia price rose to a record $18.86/MMBtu in February 2014. But it fell to the low $6s/MMBtu in February 2015 and stood at $6.95/MMBtu in early November.

Despite the near-term cyclical downturn, interest in LNG has increased as buyers look for assets with long-term growth potential, Beveridge said. "We see LNG as one of the more attractive growth sub-segments in the industry over the coming 30 years with industry growth of 6-7% as demand shifts to lower-carbon fuels," he added.

Oil Search interest

Activity picked up in September when Woodside launched an A$11.6 billion ($8.4 billion) takeover bid for Papua New Guinea-focused Oil Search. Woodside's interest in Oil Search centers on its LNG assets, and particularly its 29% stake in the ExxonMobil -operated PNG LNG project.

The proposal highlights the attractiveness of PNG assets that sit at the lower end of the cost curve, according to Bernstein. PNG LNG started up several months ahead of schedule and operated at 7.4 million mt/year during the third quarter, well above its nameplate capacity of 6.9 million mt/year.

Oil Search operates all of PNG's producing oil fields, but the addition of PNG LNG has changed its output profile. Production from the project is set to boost Oil Search 's output in 2015 to 27-29 million boe, from 19.27 million boe in 2014 and 6.74 million boe in 2013.

Woodside's overtures have so far been rejected by Oil Search , whose Managing Director Peter Botten has said the offer was not up to expectations. Woodside CEO Peter Coleman has said he has little appetite to raise the bid.

Separately, Santos has become the subject of a takeover bid. Investment fund Scepter Partners, which has links to the royal families of Brunei and the United Arab Emirates, on October 20 surprised the market by lobbing an

A$7.14 billion offer at Santos. Like Oil Search , Santos has rejected the offer, but is in a relatively weaker position having seen its share price fall in the wake of the oil price crash from more than A$15 in September 2014 to below A$4 on September 30 this year.

Santos' plans

Santos on November 9 unveiled plans to wipe A$3.5 billion ($2.5 billion) off its A$8.8 billion of debt through asset sales and by raising equity, but said it would preserve stakes in its key LNG operations.

Santos said it had completed the strategic review begun in August. Among the resultant measures it plans to sell for A$520 million its 35% stake in the Kipper gas field to Japan's Mitsui.

The gas field is part of the $4.5-billion Kipper Tuna Turrum project, which is operated by ExxonMobil and BHP Billiton 's Gippsland Basin joint venture. Kipper Tuna Turrum is the largest oil and gas development on Australia's east coast, with an estimated 1.6 Bcf of gas and 140 million barrels of liquids.

The Turrum and Tuna fields are owned 50% each by ExxonMobil and BHP Billiton . The Gippsland Basin joint venture partners also own the remaining 65% of Kipper. Gas is currently being produced from the Tuna field and crude oil from Turrum, with Kipper expected to begin producing gas in 2016 after the commissioning of a new A$1 billion gas conditioning plant at the onshore Longford processing facility.

The Kipper sale is expected to be completed in the first quarter of 2016, and "realizes good value for this asset despite difficult oil and gas market conditions in recent times," Santos Executive Chairman Peter Coates said.

Santos is also making an A$500-million private placement to an affiliate of China-based international private equity fund Hony Capital , and a A$2.5 billion, 1-for-1.7 entitlement offer. Hony will subscribe for its shares at A$6.80 each, raising its stake in Santos from 1.4% to 7.9% as a result of the share placement.

Coates noted that the planned capital initiatives meant Santos was under no pressure to sell more assets, but would continue to respond to the interest generated by the strategic review, only selling operations "where there is a compelling value case."

Interest in juniors

There has also been an upturn in M&A activity among Australian juniors. Beach Energy and Drillsearch Energy in October unveiled plans for an all-scrip merger that would create a mid-cap oil and gas producer valued at around A$1.17 billion and with production of 12.1 million boe.

The deal is set to be completed in February 2016. It would combine the companies' overlapping assets in central Australia's Cooper Basin, providing annual cost savings of around A$20 million.

Cooper Basin is Australia's largest onshore petroleum province and has produced more than 6 Tcf of gas since operations began in 1969. Currently, around 190 gas fields and 115 oil fields produce in the basin.

Armour Energy has also attracted interest, from both privately-owned Chinese group Landbridge and US shale pioneer Aubrey McClendon 's American Energy Partners . Armour is active in the unconventional oil and gas sector.

American Energy Partners in September signed an agreement to spend up to $130 million exploring Armour's tenements in the Northern Territory's McArthur Basin over the next five years, with a view to earning a 75% stake in the area. That deal was scuttled when Landbridge raised an August offer of A$0.12/share to A$0.20/share.

But McClendon was back in the driving seat in early November, following a sweetened farm-in proposal linked to a partial takeover offer. Should the deal receive shareholder approval, AEP would emerge with a 19.23% stake in Armour.

Analysts also anticipate potential plays for other onshore producers, such as Cooper Energy and Strike Energy.

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