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HD **Aurora Oil draws $1.84bn takeover bid**

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Aurora Oil & Gas's early plunge into shale gas in Texas in 2006 has borne rich rewards, with the Australian-listed player drawing a $1.84 billion cash bid from Canada's Baytex Energy that may yet be trumped by a higher offer.

Baytex is offering $4.10 per share for Aurora, a huge 56 per cent premium to Thursday's close. The deal has been endorsed by Aurora's directors and stands to yield almost $83 million for executive chairman Jon Stewart.

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While the offer is being described by analysts as "pretty full", Westoz Funds Management, which owns about 1.7 per cent of Aurora, isn't ruling out the possibility of a higher bid.

Westoz executive director Dermot Woods said the most likely rival suitor would be Marathon Oil, the US operator of the Aurora's flagship Sugarkane project in the Eagle Ford Shale region in southern Texas.

"There may be a counter-bid from the joint-venture partner," Mr Woods said. "We'll certainly hold on to our shares for now."

Aurora shares, which have lost almost 30 per cent of their value in the past 12 months, surged 56 per cent on Friday on news of the offer to $4.09, just 1¢ shy of the offer price.

Mr Stewart led Aurora into the now-prized Eagle Ford region years before some of the biggest oil companies, including BHP Billiton, ConocoPhillips and China's CNOOC, followed suit.

It has built up a valuable holding of over 8900 hectares in the prolific Sugarkane field, which lies in the "sweet spot" of the liquids-rich Eagle Ford.

Aurora produced almost 25,000 barrels of oil equivalent a day in the December quarter – mostly light, high-quality crude – and has forecast a jump in output of almost 50 per cent this year.Shares soar

Shares in fellow Australian-listed holders of US shale acreage also soared on Friday. The offer highlighted the glaring discrepancy between the value that corporations such as Baytex see in such assets, and the value that the market has been willing to ascribe to them.

Sundance Energy, Lonestar Resources, Antares Energy and AWE all jumped by more than 11 per cent.

"It's pointing to these stocks being oversold," said RBC Capital Marketsenergy analyst Andrew Williams.

"Those sorts of disconnects have been in the market all through 2013. At some point that value has to be realised, and if it's not by the market, it will be by a corporation."

Mr Stewart, who owns 4.5 per cent of Aurora, said its sharemarket performance had been frustrating, given the **company** had delivered on its promises on reserves, production growth, project delivery, and cost reduction.

"It was a frustration to us that there was that disconnect between what we felt was the underlying value versus where the market had us," Mr Stewart told AFR Weekend from London.

"This offer validates that to a significant degree."

Aurora's share register is wide open, with the two largest holders both North American funds: Harbor Funds with 8.07 per cent and Canada's Public Sector Pension Investment Board with 5 per cent. Aurora's directors, including Mr Stewart, hold about 5.5 per cent.

Mr Woods noted that Marathon had a more bullish view on future output from Sugarkane than the assumptions used to underpin Aurora's reserves.

"That might give you some hope that Marathon would have a fairly close look at it," he said.

The terms of the deal include a break fee of $18.8 **million** to Baytex.Board 'confident' on outlook

Mr Stewart said the board was confident in Aurora's growth outlook. But when the unsolicited offer was made, the board had assessed it against the fundamental value of Aurora's assets and decided it should be pursued.

"You do need to weigh up a bird in the hand, so to speak, versus future delivery of value," he said.

"It's an attractive investment for Baytex. It's also, we consider, an attractive risk-free realisation for Aurora shareholders in the near term."

The offer, which will be assessed by an independent expert, is structured as a scheme of arrangement. Aurora is being advised by Credit Suisse and Goldman Sachs. Scotia Waterous is advising Baytex.

Baytex, which is primarily a producer of heavy crude **oil** in Canada, is raising up to $US1.5 **billion** ($1.68 **billion**) in **equity** to fund the deal. It valued the transaction at $C2.6 **billion** ($2.63 **billion**), including $C744 **million** of debt it will assume from Aurora.

Chief executive James Bowzer knows Aurora's assets well, having headed up Marathon's North American **operations** when the US **company** took over the previous operator of Sugarkane, Hilcorp Resources, in 2011.

Merrill Lynch's trading desk calculated Baytex is paying five times 2014 earnings before interest and tax for Aurora, which compares to peer deals of between four and five times.

Merrill said the deal was at $12 per barrel of **oil** equivalent based on proven, probable and possible reserves, which it described as "pretty full". In comparison, Sundance **Energy** trades at two times EBIT or $8 per boe, it said.Aurora shareholders will vote on the transaction in late April or early May.The deal, which is expected to complete in mid-late May, is also subject to clearance from the Foreign Investment Review Board. READ NEXT: Water tensions bubble up in US shale gas heartland

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