

FINANCIAL REVIEW

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HD Santos shares down 27pc as \$7.14b offer falls short

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LP A sharp drop in Santos shares after the first part of the gas player's underwritten \$2.5 billion equity raising has caused some to question the board's decision to reject outright last month's \$7.14 billion takeover approach from Middle East-backed Scepter Partners.

The 27 per cent decline to \$4.30, from the last close of \$5.91 on Friday, came after the shares were halted all week since Santos on Monday announced a \$3.5 billion package of measures to cut debt.

TD The heavy reliance of the package on a dilutive equity raising disappointed some investors, who expected more proceeds to flow from asset sales instead, although the appointment of former Clough boss Kevin Gallagher as the new chief executive was welcomed.

Significantly, the share price move on Thursday represented a 16.5 per cent fall from the \$5.15 equivalent price of Santos stock that took into account the extra shares issued.

But while the shares were halted, crude oil prices sank almost 4 per cent and the market was also affected by broader concerns that softened the share prices of Santos peers such as [Origin Energy](#), down 5.5 per cent.

The softness in the share price still surprised some analysts, particularly as the take-up by institutional investors of the discounted share offer was a reasonable 86 per cent.

Also, as already reported in *Street Talk*, the shortfall of entitlements cleared in a bookbuild on Wednesday at \$4.60.

It remains unclear if the bookbuild price was supported by the participation of a strategic investor such as Santos' new cornerstone shareholder, private Chinese firm [Hony Capital](#). That potentially won't be known until November 21, the latest date to file a disclosure.

Executive chairman Peter Coates still described the issue as a success and said it gave "a clear sign of confidence" in the measures to reduce debt. That package, which includes an asset sale, was the result of a strategic review process led by Mr Coates, which also elicited the \$6.88 per share approach from Scepter.

One analyst said that with the share price decline on Thursday, there was "a question a lot of shareholders would be asking" as to why the board hadn't sought to engage with Scepter on a better offer, although other sources pointed out the company's unknown background and opaque funding.

The \$1.35 billion retail part of the offer opens next week and Santos is aiming to drum up interest in a roadshow to take in Sydney, Melbourne and Adelaide. Entitlements not taken up will be offered for sale in another bookbuild on December 3.

Fat Prophets has yet to advise its clients on whether to take up their entitlements, but analyst David Lennox said that typically if the share price was above the entitlement price, then "we would generally be comfortable" to recommend shareholders participate.

Shareholders can buy one new share at \$3.85 for every 1.7 shares they hold.

CO sants : Santos Ltd

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