REUTERS

HD **Australian's bet on China gas begins to pay off**

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* Initial bet was $7 mln, company now worth $246 mln

* First gas production started this week

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* Project benefiting from China's switch from coal to gas

By Sonali Paul

MELBOURNE, Dec 5 (Reuters) - An Australian entrepreneur's bet on natural gas acreage in a Chinese desert cast off by Chevron Corp is set to reap far bigger returns than expected, a director of the firm behind the project said.

In what appears a rare bright spot for gas investments, as global energy prices slump, the project is benefiting from Beijing's policies to boost output of the cleaner-burning fuel.

Chevron gave up a 50 percent stake in 3,000 square km in China's Ordos Basin to Australian Bernard Ridgeway in 2005, in return for spending $7 million to drill and assess the resource.

"It was in a very undeveloped state at that time, so it was a fairly big punt," said Gavin Harper, a non-executive director recruited by Ridgeway for the firm he founded, Sino Gas & Energy .

Nine years later, after snaring the rest of Chevron's interest for free and then selling a 51 percent stake to Hong Kong-based MIE Holdings Corp for $100 million, Sino Gas started producing this week.

The acreage is in an area known for reserves of tight gas, which needs horizontal drilling and fracturing technology to free gas trapped in rock.

Sino's pilot production, targeted to reach 25 million cubic feet a day, marks the first step toward certifying reserves. It then needs a final development plan approved before it can move to full production, expected in 2017.

The blocks it owns with MIE and state-owned partners potentially could hold 4 trillion cubic feet of gas, equivalent to Japan's annual demand and much bigger than first thought.

SWITCH TO GAS

Besides scale, it is benefiting from China's push to use gas instead of coal to cut pollution and emissions, which has led to two gas price rises since the project was conceived.

Sino Gas has agreed a selling price of $9.50 per thousand cubic feet (Mcf) to a customer in Shanxi, more than four times its production cost of $2 per Mcf, Sino Gas Chief Executive Glenn Corrie told Reuters.

Analysts say the firm's key challenges are to secure approvals on its reserve assessments and development plan from the government and its production sharing partners China National Petroleum Corp (CNPC) and CUCBM, a state-owned company led by CNOOC Ltd, within the next two years.

Noting how it should be shielded from plunging **oil** prices, Euroz analyst Michael Skinner has a Sino Gas target price of A$0.42. The stock last traded at A$0.19, valuing the **company** at A$293 **million** ($246 **million**). (1 US dollar = 1.1903 Australian dollar) (Editing by Henning Gloystein and Ed Davies)

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CO socal : Chevron Corporation

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