

SE Features
HD **China's ENN to Buy Stake in Santos**
WC 667 words
PD 28 March 2016
SN LNG Intelligence
SC LNGI
LA English
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Chinese gas distributor ENN Group is set to become the largest shareholder in Santos after agreeing to buy an 11.7% **stake** in the Australian **company** for US\$750 **million**. The move is testament to the growing ambitions of **China's** private **energy** firms on the **M&A** market as its national **oil** companies (NOCs) remain largely out of the game.

ENN Ecological Holdings, a subsidiary of ENN Group, said Thursday it was acquiring the entire **stake** in Santos that is currently held by **Chinese** private **equity firm** Hony Capital, as part of its strategy to develop into a vertically integrated international gas **company**.

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Emboldened by pro-competition reforms in **China**, ENN is building its own LNG receiving terminal in Zhoushan, in the eastern Zhejiang province and has in recent months signed agreements with several big-name suppliers (LNGI Mar.2'16).

"This introduction to the upstream sector takes us a step forward in our aim to generate value across the entire natural gas value chain, and allows us to learn and build experience," said Wang Yusuo, chairman of ENN Group.

Santos said it welcomed ENN onto its shareholder register given its knowledge of the gas business across the region.

ENN will pay the \$750 **million** part cash, part **equity**. The deal's price tag works out at A\$4.82 (US\$3.62) per share, which is roughly a 23% premium to Santos' closing price in Sydney on Wednesday. At the same time, Hony Capital will become a strategic investor in ENN Ecological Holdings via a private placement of US\$380 **million**.

Hony Capital only recently acquired most of its shares in Santos through the **company's** A\$2.5 **billion** (\$1.76 **billion**) **equity** raise, in a move designed to reduce its debt after a strategic review failed to offload any assets (LNGI Nov.10'15).

"We chose to invest in Santos because of its strategic position in Australia and synergies with the rapidly growing **China energy** market," said John Zhao, chairman of Hony Capital. "Bringing in ENN as a strategic investor will help Santos connect to that opportunity in **China**, and at the same time we are helping a **Chinese company** expand internationally."

Santos' main assets are a 13.5% **stake** in Papua New Guinea's 6.9 **million** ton/year PNG LNG project and its 30% **stake** in the \$18.5 **billion** Gladstone LNG project in the Australian state of Queensland, where production started last year.

But Citi analyst Dale Koenders said in a note it is hard for to see synergies from the deal for ENN given the LNG offtake from Santos' projects is largely already contracted. "Therefore, we see this investment as based on value, with expectations of growing gas demand in **China** longer term, LNG markets moving back to balance after 2020, and a view of recovery in **oil** prices in the medium term."

ENN last year sold 11.3 **billion** cubic meters of natural gas in **China**, where demand growth has slowed sharply over the past two years. The **company** supplies gas to more than 12 **million** households in 152

cities across **China** and more than 56,000 industrial and commercial users. It also distributes 1.88 **million** tons of LNG annually, accounting for about 20% of the LNG trade volume in **China**.

Meanwhile, analysts at Bernstein said they believe ENN is dipping its toe in the water and could well come back for a full-blown takeover of Santos. "Given that ENN is not an NOC, such a move would be less politically sensitive than if the **acquisition** was made by a **Chinese oil** major," they wrote in a note. Any major overseas transactions by **China's** NOCs would also come under close scrutiny in **China** itself in the wake of a sweeping corruption probe that has examined previous big-money acquisitions.

The deal remains subject to ENN shareholder approval and customary regulatory filings in **China**.

Energy Intelligence

CO hbwynd : ENN Ecological Holdings Co.,Ltd. | sants : Santos Ltd

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