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HD New chief named as Santos starts rebuild

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LP Santos has turned to a former Woodside Petroleum senior executive to repair the balance sheet and its market credibility after Australia's second-biggest oil and gas company yesterday abandoned a whole-of-company sales process.

The surprise appointment of Kevin Gallagher, who since being overlooked for the top job at Woodside in 2011 has transformed Perth-based engineer Clough, overshadowed news that Santos executive chairman Peter Coates had called time on a three-month strategic review.

TD It is also expected to spark a raft of changes at Santos' senior management level from early next year when Mr Gallagher takes up the managing director/chief executive role that could pay \$6.3 million a year.

Instead of an expected flurry of asset sales, Mr Coates yesterday announced just one divestment — its 35 per cent stake in the Kipper gas field off Victoria, sold to Mitsui for \$520 million — alongside a \$3 billion equity raising, including a \$500 million placement to Chinese private equity firm Hony Capital.

Hony, which already owned 1.4 per cent of Santos, will emerge with a 7.9 per cent stake once it takes part in the \$2.5 billion rights issue, and has agreed not to move beyond 9.9 per cent for three months.

Santos shares were placed in a halt at \$5.91 while it carried out the institutional component of the \$2.5 billion one-for-1.7 entitlement issue, priced at \$3.95.

The proceeds from the equity raising and Kipper sale should slash Santos' net debt from \$8.8 billion at June 30 to about \$5.3 billion and erase investors' immediate concerns about the Adelaide-based company's ability to survive amid long-term low oil and gas prices.

Mr Coates said the raising, coupled with further internal cost cutting, reductions in capital expenditure and a re-basing of Santos' dividend policy, left the company under "no pressure to sell further assets". In future, Santos will pay dividends worth 40 per cent of underlying net profit.

"(But) we expect inbound interest may continue and we will respond accordingly in the normal course," Mr Coates said. "We will only sell assets where there is a compelling value case for our shareholders and it is consistent with the company's strategy."

Having missed out on buying Santos' stake in their WA domestic gas business, Quadrant Energy is expected to turn to Origin Energy's Perth Basin assets.

CO clough : Clough Ltd | wodpet : Woodside Petroleum Ltd | sants : Santos Ltd | murrob : Murray & Roberts Holdings Ltd

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