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HD Santos relents on raising
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LP Embattled oil and gas producer Santos has been unable to avoid what many investors saw as inevitable, announcing a $3 billion equity raising after a three-month search amid a low oil price yielded just one deal — the $520 million sale of a stake in a Bass Strait gasfield to Japan's Mitsui.

The raising to pay down the company's $9bn debt load will include Chinese private equity firm Hony Capital taking a 7.9 per cent stake, a move Santos executive chairman Peter Coates says does not prevent Brunei-backed Scepter Partners from increasing its already rejected $7.1bn cash proposal.

TD Adelaide-based Santos also revealed that Clough managing director Kevin Gallagher would replace departing chief executive David Knox , whose exit date has been unexpectedly brought forward to this week following the completion of the three-month strategic review.

Mr Coates will increase his duties now that the strategic review is complete, running the whole company until Mr Gallagher takes the reins some time early next year.

"The $3.5bn of capital initiative puts the company's balance sheet beyond question," Mr Coates told The Australian. "The debt position will be significantly reduced and the company's liquidity position will be very strong." The equity raising comes after oil prices collapsed this year in the face of growing US shale output and an OPEC refusal to cut production, wiping $6bn, or 50 per cent, of value from Santos's market value.

Santos suffered heavier losses than most energy companies because of concerns it would struggle to repay debt taken on to build the $US18bn Gladstone LNG plant if oil prices weakened further.

The raising will be in the form of a $2.5bn, one-for-1.7 renounceable rights issue at $3.85 a share and a $500m placement to Hony at $6.80 per share.

The Chinese investor will end up with a 7.9 per cent stake after taking up its full entitlements under the rights issue, which will reduce its entry price to about $5.60 a share, or an 8 per cent premium to the theoretical ex-rights price of $5.15.

Santos shares last traded at $5.90 on Friday.

Mr Coates defended the decision to sell the stake to Hony for $6.80 a share, just less than the $6.88 a share Scepter offered for the whole company three weeks ago. "Scepter made an incomplete, non-binding and indicative proposal that significantly undervalued the company," Mr Coates said.

"Quite frankly, the Hony investment, for a non-controlling, non-blocking stake as an investor, not an owner, pointed out how inadequate the Scepter approach was." He said restrictions on Hony increasing its stake beyond 9.9 per cent would mean Scepter had an opportunity to boost its offer.

"Hony has agreed to a three-month standstill — if Scepter is interested, they have all the opportunity in the world to come back and the board will always consider good proposals," Mr Coates said.

Scepter Partners refused to comment on its intentions in the wake of the raising, but is said to be unenthusiastic about increasing its offer.

In August, Santos finally accepted that it needed to take rapid action to pay down debt as a slumping share price showed that investors felt the company's debt load was increasingly risky in an uncertain oil market.

It came after months of speculation that it would need to raise equity to pay down debt.

Mr Coates took an executive position, declared Mr Knox would step down early next year and announced a strategic review that would look at company-wide asset sales to reduce or avoid an equity raising.

The one asset sale that came from the review was the sale of a 35 per cent stake in the Exxon Mobil-run Kipper gasfield in the Gippsland Basin, off Victoria, Santos said yesterday.

With oil prices trading near 10-year lows, there were few decent offers. "We said we were not a distressed shareholder and we would only sell if it was consistent with shareholder value," Mr Coates said. "We decided that some of the assets that were strongly sought after were of strategic value to the company and were better kept in the portfolio ... it's no secret PNG LNG is the jewel in our crown and everyone else wanted it to be the jewel in theirs." The 13.5 per cent Santos stake in the Papua New Guinea LNG plant was reportedly set to be sold down to 10 per cent for $1bn, but this did not happen.

Katana Asset Management fund manager Romano Sala Tenna said he was disappointed the company had not sold a stake in PNG LNG to reduce the equity raising.

"There were regular and substantial reports they were selling a stake in PNG LNG and a lot of the shareholders would have preferred to see a partial sale of that and a smaller raising," Mr Sala Tenna said.

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