

# FINANCIAL REVIEW

Features - Rear Window

## Santos '15pc premium' fails to stack up

Joe Aston

302 words

10 November 2015

[The Australian Financial Review](#)

AFNR

First

48

English

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Well didn't the board of Santos plate up a double-decker excrement sandwich for investors on Monday morning?!

As part of a suite of capital management initiatives (total = \$3.5 **billion**) aimed at shoring up the **oil** and gas major's debt-laden balance sheet, the **company** has gone for a "private placement at a 15 per cent premium to last close (of \$5.91)" to **Chinese** private **equity firm** Hony Capital .

...

Because Hony then gets to participate in the concurrent **equity** raising, priced at \$3.85 (a whopping 35 per cent discount to \$5.91) - indeed Hony has "provided binding commitments to take up its full pro-rata entitlement under the Entitlement Offer", which means another 43.5 **million** shares.

So Hony is actually getting a total of 117 **million** shares for \$665 **million** - at an average price of \$5.71 - even though the Santos board is already sitting on an indicative offer from consortium Scepter of \$6.88 per share...

...more, given Hony has "agreed not to divest to any unrelated party any of its shares in Santos acquired" through this deal, the board has given away a blocking **stake** at a discount to the **company's** trading price and at a hefty discount to an existing offer from another shareholder.

Does that sound to you like a 15 per cent premium? It's amazing the shareholder value a **company** will surrender to shore up the balance sheet. Especially given they could've shored up the balance sheet at more like \$10 to \$14 this time last year....

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# FINANCIAL REVIEW

News

## Chinese rescue Santos

Simon Evans, Angela Macdonald- Smith, Sarah Thompson and Anthony Macdonald

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First

1

English

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**\$3.5 billion** capital raising ends debt crisis - Capital expands 70pc - Experienced new CEO

Santos has been accused of trying to make itself takeover-proof again by effectively selling a blocking **stake** to a **Chinese** private **equity firm** seven years after the South Australian group ditched a 15 per cent shareholder cap.

In a move designed to reduce the pressure from **\$9 billion** of debt, the **oil** and gas producer will raise **\$2.5 billion** from existing shareholders, sell a 35 per cent **stake** in a gas field off Victoria for **\$520 million** and has agreed to sell **\$500 million** in shares to **Chinese** private **equity firm** [Hony Capital](#).

Santos executive chairman Peter Coates said the debt problem that hit the **company** when **energy** prices tumbled had been fixed and the group is now in a position "not just to survive, but to thrive".

...

He appointed a new chief executive, Kevin Gallagher, who has led engineering **firm** Clough since 2011 and was once considered a candidate to become CEO of Woodside Petroleum, where he worked for 13 years. Mr Gallagher will move to Santos from early...

The **company** has been under attack from short sellers and hedge funds as it buckled under **\$8.8 billion** of debt, which was raised in part to build a giant LNG processing plant in Queensland to supply gas to Asia.

In an ominous move, Santos flagged write-downs of as much as **\$3.4 billion** on its assets, including the flagship Gladstone LNG project in Queensland, which has just been finished at a cost of **\$US18.5 billion** (**\$26 billion**) and shipped its first LNG a few weeks ago. There may also be write-downs on its Cooper Basin gas fields in the north of South Australia and **coal** seam gas assets in NSW's Gunnedah Basin.

...managers are conducting a detailed review of those assets in line with the global slump in values and will finalise the actual impairment values in the next few weeks. The **company's** 158,000 shareholders, in a **company** where retail holders make up 45 per cent of the register, will suffer further pain because the board has signalled lower dividend payout ratios generally, of a minimum of...

This compares with a final dividend of 15¢ in the second half of 2014. The **company's** issued capital will expand by about 70 per cent because of the share sales, placing pressure on investment returns.

Hony has powerful backers including **China's** state-owned Legend Holdings and Singapore sovereign wealth fund Temasek and made its first big international investment in mid-2014 by buying restaurant chain Pizza Express for **£900 million** (**\$1.9 billion**) in the UK. It will invest **\$700 million** into Santos because it will also take up its share of the rights issue. The average price across its investment is \$5.71 a share. It has signed... ..to lift its total holding in Santos above 9.9 per cent for three months. From then on it can move above 10 per cent, potentially giving it a blocking **stake**.

Hony owned 1.4 per cent of Santos prior to the placement and rights issue. It was an underbidder in the **sale** process for Melbourne-based vitamins group Swisse, which was bought by **Hong Kong's** Biostime International in mid-September for a whopping **\$1.67 billion**.

... rejected it and on Monday; Scepter was accused of bargain-hunting by Santos management. Scepter declined to comment but sources close to the Middle Eastern group said the share **sale** to Hony was designed to prevent

Scepter or anyone else from taking the **company** over.

... 2008 to have a 15 shareholder cap removed which had been put in place in 1979 by the South Australian Government to stop corporate raider Alan Bond from taking the **company** over, and getting control of vital **oil** and gas assets.

Mr Coates rejected the notion that the Hony **stake** would prevent offers. "Suggestion that Hony's investment is a blocking **stake** is just not correct," he said. He noted that Scepter's proposal needed 75 per cent of shareholders to support it.

Bernstein analyst Neil Beveridge said the capital raising would be enough to restore balance sheet strength "but it appears more about achieving **company** continuity and independence than maximising shareholder value".

Mr Coates, says given the **company**'s circumstances, it was a smart move for Santos to go outside the **company** for its next chief executive. "A fresh set of eyes was the right approach," he said.

...

... halt on Monday morning. Chief financial officer Andrew Seaton , who six months ago was adamant a capital raising was not required, says net debt would drop to \$6.2 **billion** , after factoring in the drop in value of the dollar against its US counterpart, with 90 per cent of the **company**'s debt US-dollar denominated.

The \$2.5 **billion** fully underwritten accelerated, pro-rata, renounceable entitlement offer was first reported by The Australian Financial Review's Street Talk column. The 1-for-1.7 entitlement offer is... ..and the offer is at a 34.9 per cent discount to the last closing price. Santos shares were at \$15.51 on September 4, 2014. The \$500 **million sale** to Hony Capital is at a 15 per cent premium to Santos' closing price on Friday of \$5.91. Hony is taking up 73.53 **million** new shares at a price of \$6.80 each.

Mr Coates said there will be no further asset sales. Mr Coates says a whole-of-**company** review started in August, which coincided with the departure of David Knox after seven years as chief executive, tested the appetite of buyers. It changed the **company**'s thinking.

Deutsche Bank and Lazard were brought in to advise on the best options for the **company** in August when Mr Coates became executive chairman as Mr Knox was elbowed aside.

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