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HD **Chilly wind lures bears to Woodside**

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As Woodside Petroleum shares trade around their highest for almost three years, the stock is increasingly attracting the bears – thanks to market worries about a lack of near-term growth, the temptation of an **acquisition** and expected tougher competition in gas supply to Asia.

Bernstein Research on Thursday has become the fourth broking house to downgrade its recommendation on Woodside Petroleum stock since last Thursday's investor briefing, citing a "chilly Siberian **wind**" that is blowing through the Pacific gas market thanks to last week's mega-deal on gas supply between Russia and **China**.

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Bernstein's downgrade to market-perform, follows similar downgrades to neutral by Citigroup and JPMorgan, while Goldman Sachs has cut its call to "sell", all in the last few days.

Woodside last week abandoned its proposed $US2.5-**billion** ($2.7 **billion**) investment in the Leviathan gas field in Israel, saying the deal was no longer attractive, given the risks. The decision reassured investors about management discipline in capital spending decisions, and also inflated investor expectations of another capital return.

However, it also highlighted the absence of production growth for Woodside over the next few years, and the time it will take before some of its earlier-stage investments yield concrete results. Dropping Leviathan has also sparked concerns among some market observers that Woodside will be lured into another **acquisition**, despite chief executivePeter Coleman's insistence at the Sydney briefing last Thursday he felt no pressure in that regard.Considering options

"While we applaud Woodside's decision to walk away from Leviathan, we think it is likely they will look for something else to fill the 'growth gap'," Bernstein's Neil Beveridge said.

"Increasingly, we expect management will want to grow rather than return cash to shareholders, which means an **acquisition** at some point, which is likely to be value-negative for investors."

Woodside chief financial officer Lawrie Tremaine last week outlined the **company**'s criteria for potential acquisitions, with a focus on deals in the $US1 **billion**-$US5 **billion** range and with a focus on adding value. It has plenty of scope for a **purchase**, with some analysts estimating it will be debt-free by the end of the year thanks to cash flows from the $15-**billion** Pluto LNG venture in Western Australia, but with a targeting gearing level of 25 per cent.

Woodside's next major organic growth project is its Browse floating LNG venture, which is targeting a final investment decision in the second half of 2015. But production is tentatively scheduled to start in 2020 or 2021, posing a challenge to drive further output growth over the next years.

Goldman Sachs analyst Mark Wiseman describes Woodside's reducing reserve life as "a concern" and says it "has the potential to drive a more significant de-rating if not successfully addressed." He sees peak production for Woodside occurring this year from existing assets, with declines then due to maturing **oil** fields in WA and lower deliveries of gas within the state.'Not transformational'

While the Browse project should add reserves in the 2015-16 period, production is "some time away" and is "not transformational," Mr Wiseman said. "More exploration and sizeable acquisitions are necessary," he said, noting that LNG-scale assets are highly sought after, while growth from exploration will necessarily take time," he said,

"While many oil and gas assets are for sale globally, they are typically mature or lower quality – and we don't think Woodside can count on organic growth near term; the exploration function is rebuilding, but will not bear fruit for several years."

CO wodpet : Woodside Petroleum Ltd

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