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HD **INTERVIEW: Australia's ROC, Horizon eye postmerger growth in Malaysia**

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* Proposed A$800 million merger meets shareholder resistance

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* Staged Papua New Guinea liquids and gas development planned

* Expanded company targets Malaysian opportunities as US players exit

The proposed merger of Australia's ROC Oil and Horizon Oil would produce an expanded A$800 million ($748 million) company focused on growing through its Malaysian development and exploration assets and a staged liquids and gas project in Papua New Guinea, ROC's current CEO Alan Linn said in an interview this week.

The deal agreed by the boards of the two companies would see Horizon shareholders receive 0.724 of a share in ROC, which would retain its identity as operator of the expanded group's assets in Malaysia, China and Papua New Guinea. ROC's existing shareholders would hold around 42% of the merged company, with Horizon shareholders owning about 58%.

The proposed scheme of arrangement merger has been hailed as a "cracking deal" by Linn but has been met with staunch opposition from funds management company Allan Gray, ROC's largest shareholder with 20%. Allan Gray has complained that the deal, which Linn says meets all Australian Securities Exchange rules, precludes it from voting on the proposal.

Shareholders in Horizon, the bigger of the two companies, will be asked to vote on the deal at a scheme meeting expected to be held in late July.

Around 45% of ROC is held by retail investors, with the remaining 35% held by a number of shareholders with stakes of 2-5%. Linn conceded that some of ROC's other larger shareholders are "not unconditionally in favor" of the merger, partly due to plans to install Horizon CEO Brent Emmett at the helm of the expanded company.

"We can argue and say that a vote [for ROC shareholders] would have been nice, but when we entered into the scheme of arrangement, we set a contract in motion which is binding and people started trading shares based on what was going to happen," Linn said.

"We've got no debt, we've got A$90 million in the bank and we've got a reasonable mid-term profile, but we need to take that next step up to be taken really seriously," he added.

"Horizon have got quite a lot of debt and a few financial issues that they're going to have to manage in the short term. They've got reasonable short-term assets but they don't give them enough revenue to really sort their debt out," Linn said. "But they've got some cracking long-term assets in PNG that are a staged development that we really like the look of. So you take a bit of cash today for a lot value tomorrow."

In Malaysia, the expanded company's major growth asset would be its 50% stake in Petronas Carigali's D35, D21 and J4 oil fields, offshore Sarawak. The fields, currently producing 10,000 b/d of oil and 17,000 Mcf/d of gas, are to be redeveloped at a cost of $250 million.

Horizon's major contribution to the merged group would be its 30%-held Stanley and 27%-held Elevala/Ketu projects in Papua New Guinea. A $300 million development of the Stanley field has been approved by the Papua New Guinea government and is expected to be completed in 2016, producing 4,000 b/d of condensate and 140,000 Mcf/d of gas.

In the longer term, Horizon's Papua New Guinea assets are expected to form the basis of a mid-scale LNG project. The other major partners in the Papua New Guinea fields are Japan's Osaka Gas and Talisman.

According to ROC Chairman Mike Harding, the advantage of the Papua New Guinea assets is that they are close to the new infrastructure which has been built as part of the $19 billionExxonMobil-led PNG LNG project.

"ExxonMobil are a good operator and the infrastructure is there now," he said. "It's always going to be difficult up there [in Papua New Guinea], but it's [now] de-risked."

"The nice thing for us is we're not a small company backing just LNG, because that can be a disaster for small companies," Linn added. "You've got a staged development in PNG which is liquids-sourced which makes it a lot easier to do."

Meanwhile, ROC is hoping to leverage its brand and operating record in China's Beibu Gulf and Malaysia to take advantage of opportunities being presented by the exit of US independents like Talisman, Hess and Anadarko, which are diverting investment to the shale sector at home.

"A company that has the scale that [the expanded company] has got, which will probably be north of A$1 billion, can sit down with Petronas and say 'we are here to help and by the way we're not going to [disappear] to the US'," Linn said.

"The problem with buying assets is [sellers] are trying to get top dollar for them," he added. "What we would rather do is use the relationships that we've got to work with the national oil companies and come in and do projects that they're looking for additional help with. It's not so much a low cost entry but a long-term relationship that allows you to access more."

But it remains to be seen whether ROC can convince Allan Gray of the merits of the deal. According to local media reports, the investor company is contemplating legal moves to force a shareholder vote.

"We're losing sight of why we're doing this deal, to be getting down to 'you didn't give me a vote'," said Harding. "We could never buy assets like we're getting from Horizon. A little A$300 million market cap company [like ROC]. No bank would give me a big blank cheque and nobody would sell the assets."

Meanwhile, shares in both companies have risen by around 10% since the merger proposal was announced at the end of April. "We're beginning to see the beginnings of a re-rate for both companies in the marketplace, which is exactly what we were hoping for," Linn said.

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