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HD **APA mulls gas pipeline selldown**

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APA Group managing director Mick McCormack has left the way open for a partial sell-down of the $6 billion gas pipeline it is buying in Queensland to be partly funded by a $1.84 billion equity raising that will increase the company's market cap by one-third.

The country's biggest gas transporter will also take on an extra $US4.1 billion ($4.9 billion) bank bridging loan to help finance its largest ever acquisition, which will enhance its growing role in the emerging LNG export industry in the eastern states.

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The raising will take the form of a one-for-three renounceable rights issue, with the securities priced at $6.60 per security, as first reported by Street Talk on Tuesday.

The hefty 17 per cent discount to Tuesday's close of $7.97 means the issue is expected to be well supported by investors.

The ability for APA to finance the mammoth deal on its own balance sheet gave the company an edge over its heavyweight rival bidders, which were probably reliant on project financing, Mr McCormack said.

The two underbidding groups included IFM Investors, QIC Limited, AMP Capital and China Investment Corporation. Powerful Hong Kong infrastructure player Cheung Kong dropped out of the process earlier on.

Confident of being well supported in debt and equity markets for the deal, APA bid alone, rather than work any of the several groups that approached it.

But Mr McCormack said APA could bring in partners later on.

"We've got all the options in front of us that we may wish to exercise at a future date," he said in an interview.

"These assets, once they've been operating for a while, are highly valued and like any of our other assets then there's a willing market out there that's an option we've got."

Under the deal struck with UK gas major BG Group, APA will buy BG's 543 kilometre pipeline that runs between coal seam gas fields in the Surat Basin and its Queensland Curtis LNG export project in Gladstone.

Revenues for the line are fully contracted under 20-year take-or-pay contracts with BG and Chinese oil major CNOOC, yielding earnings before interest, tax, depreciation and amortisation of about $464 million in the first full year.

Revenues are priced in US dollars and are indexed against US CPI. They are not linked to oil or LNG prices, not dependent on actual volumes carried in the pipeline or subject to regulation.

Mr McCormack said the pricing of the deal, representing an enterprise value to EBITDA multiple of 13-times was "by any measure fair value", given multiples paid for similar assets of up to 17 or 28-times in the past 18 months.

But some analysts pointed to limited growth opportunities offered by the pipeline, with expansion of liquefied natural gas in Queensland beyond the initial plants looking an increasingly long-dated possibility.

"We suspect that this is a case of APA putting its share price to good use in order to lock in a future cash flow stream that can hopefully then be redeployed into higher growth areas," said Commonwealth Bank director of utilities research, William Allott.

"We wouldn't be surprised to see APA spin this asset off into another unlisted vehicle, whereby keeping a 20 per cent **stake** and management rights, and earning a healthy fee."

UBS utilites analyst David Leitch noted the high level of debt associated with the deal, in which APA is playing the role of a "leasing **company**".

"From a balance sheet perspective I think it's a very heavily geared transaction; from a cash flow perspective it looks better," Mr Leitch said.

"You're not really buying a business, you're buying a stream of cash flow over a finite life. BG is just paying a revenue steam that APA is prepared to pay $US5 **billion** for."

Under the structure of the deal, APA has an option to take over operatorship of the pipeline from BG's QGC subsidiary after 12 months, allowing it to integrate it into its own extensive pipeline portfolio.

BG had long flagged its intention to sell the pipeline, which has a book value of $US1.6 **billion**. It is set to reap a post-tax profit of $US2.7 **billion** on the **sale**.

However, BG also advised it would take a write-down of about $US2 **billion** on the rest of its Queensland Curtis LNG project, which is due to begin production later this month, and flagged a broader review of asset book values because of the plunge in **oil** prices.

Interim executive chairman Andrew Gould said the **sale** was in line with BG's strategy to focus on its core exploration, production and LNG business.

The **sale**, expected to complete in the June quarter of 2015, may set the scene for similar pipeline divestments by the two other LNG projects in Queensland, Santos's $US18.5 **billion** GLNG venture, and Origin **Energy**'s Australia Pacific LNG project. The QCLNG pipeline is expected to contribute $464 **million** to EBITDA in the 2015-16 year and add about 10 per cent, or between $242 **million** and $267 **million**, to operating cash flow after payment of interest on debt.

For 2014-15, it should generate between $78 **million** and $118 **million** in EBITDA, while net interest costs will increase by $13 **million** to $29 **million**

APA securities were halted from trading pending the institutional part of the entitlement offer. A retail offer will follow next week.

CO austpi : APA Group

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