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HD Santos pitches value of shares in long term

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LP Santos management has been highlighting the wide gap between broker valuations of its assets and its share price, as it seeks to convince retail shareholders they should take up their entitlements in the company's \$2.5 billion rights issue, despite the flagging oil price belting stocks in the sector.

After completing a broker roadshow last week for the \$1.375 billion retail offer, executive chairman Peter Coates signalled at least some investors were taking the message on board.

TD "We have seen strong and growing recognition amongst retail brokers of the significant upside to Santos, and that there is value on offer by participating in our entitlement offer," Mr Coates told The Australian Financial Review.

The retail offer, which closes on November 30, allows shareholders to buy stock at \$3.85 a share. The price of the 1-for-1.7 rights offer was a 25.2 per cent discount to the benchmark price for the stock when it was announced, but the discount has narrowed as Santos shares have weakened over the past days, and is only 7 per cent less than Friday's close of \$4.14.

Long-suffering investors have seen their stock price sink from north of \$12 a year ago, or an adjusted price of over \$10, taking into account the new shares being issued in the capital raising.

But not taking up their entitlements will see investors further diluted.

The underwritten \$2.5 billion equity issue is part of a \$3.5 billion package of measures announced by Santos earlier this month to help cut its \$9 billion debt. **A private placement to Chinese private equity firm Hony Capital raised \$500 million, while the sale of a stake in a gas field raised \$520 million.**

Analysts' target prices for Santos shares quoted on Bloomberg range from \$4.20 to \$7, with much of the variation dependent on oil price assumptions. Last week Bernstein upgraded its call on the stock to outperform with a \$5.80 price target.

"There's a huge gap there between what assets are valued at and how the share price reflects them," Santos' vice president corporate development James Baulderstone said on Sunday.

Bernstein analyst Neil Beveridge said that it was cheaper to buy Santos than to invest in new LNG production and that the company could be targeted by another private equity firm, aside from Scepter Partners, whose approach to the board last month was rejected.

"In our view Santos still looks ripe for a private equity buyout, which could refocus the portfolio and restructure debt," Mr Beveridge said.

Meanwhile, a substantial shareholder notice filed by [Hony Capital](#) late Friday reveals that the firm bought more shares in the bookbuild for the shortfall of entitlements in the institutional offer and has also been buying on the market.

According to the filing, Hony's stake in [Santos](#) has temporarily increased to 12.16 per cent, although it will fall again to below the 9.9 per cent stipulated in the placement deal once the shares are issued for the retail offer.

The Chinese company has committed to keeping its stake in [Santos](#) below 9.9 per cent for three months but some brokers are understood to have quizzed Mr Coates in the roadshow on whether it might go on to make a takeover bid.

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