SE DataRoom
HD Santos unveils $3.5bn capital boost
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LP Embattled group flags new equity raising, private placement and stake sale to shore up balance sheet.

Embattled oil and gas producer Santos will look to shore up its capital position to the tune of $3.5 billion and has also tapped a resources veteran to head up the company.

TD Santos unveiled a suite of initiatives this morning, including a new equity raising, private placement and stake sale designed to reduce the company's overall net debt. The measures come after a strategic review of the business, which has been stung by the recent weakness in global energy prices.

As part of the overhaul, the company also appointed current Clough chief executive Kevin Gallagher as its managing director and chief executive officer. He is expected to commence the role in early 2016, pending an agreement with Clough about his release.

The measures will see Santos raise $2.5bn through a fully underwritten accelerated pro-rata renounceable entitlement offer, as well as an additional $500m through a private placement to an affiliate of the China-based international private equity firm, Hony Capital . The placement price is a 15 per cent premium to the last closing share price.

Santos will also bank $520m from the sale of a 35 per cent stake in the Kipper gas field to Mitsui E&P Australia.

Executive chairman Peter Coates said the moves reinforce the Santos balance sheet and mark a significant step towards restoring long term value for shareholders.

“The review has shown that we can further streamline the business and enhance financial discipline and the board is absolutely committed to pursuing those opportunities," he said.

“We are very confident that the steps taken today will drive better returns for shareholders by strengthening the company’s financial position and underscoring the value of its high quality and diverse asset base."

Shares in Santos were placed in a trading halt earlier, pending a release to the market about the new raising.

Speculation had been rife this morning that the embattled oil and gas explorer would unveil a sweeping overhaul of its operations sooner rather than later.

Management at the country’s third-largest energy producer, now run by mining heavyweight Peter Coates, had been conducting a wide-ranging strategic review of the debt-laden business.

Santos has been hit hard by the global fall in energy prices because of the high amount of debt it took on to build the $US18 billion ($25.6bn) Gladstone LNG project, in which it has a 30 per cent stake.

An 82 per cent fall in first-half profit resulted in job cuts, a reduction in capital expenditure and the removal of chief executive David Knox in August.

It revealed in October it had rejected a $7.1bn takeover bid from an overseas fund backed by members of the ruling families of Brunei and the United Arab Emirates.

Santos shares have slumped nearly two-thirds over the past 12 months, but had posted strong gains since the takeover bid announcement as investors awaited a sweetened bid. The stock closed at $5.91 on Friday.

Mr Coates said the $3.5bn capital initiatives mean the company is no longer under pressure to sell further assets, but did not the review process had attracted significant interest from substantial oil and gas industry operators and investors.

“We expect inbound interest may continue and we will respond accordingly in the normal course," he said.

"We will only sell assets where there is a compelling value case for our shareholders and it is consistent with the company’s strategy."

Santos also expects a $900m reduction in 2015 capital expenditure at $1.8bn, compared to original capex guidance of $2.7bn.

Fiscal 2016 capex guidance of $1.2bn is 33 per cent lower than the year prior.

All fiscal 2015 production guidance is maintained, while fiscal 2016 guidance is seen between the range of 57 million barrels of oil equivalent (mmboe) and 63 mmboe. Sales volumes are seen between 76 mmboe and 83 mmboe.

CO sants : Santos Ltd

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