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SE Business

HD Santos seeking \$3.5b

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LP Shares and asset sales key to capital rescue plan

OIL and gas producer Santos hopes to set off on a path of recovery after announcing it will raise \$3.5 billion through share and asset sales, and appointing an industry veteran as its new chief executive.

TD The embattled company will raise \$2.5 billion through a rights entitlement offer, sell \$500 million worth of shares to China-based private equity firm [Hony Capital](#), and offload its 35 per cent stake in Victoria's Kipper gas field to Japan's Mitsui for \$520 million.

It has also appointed former Woodside executive Kevin Gallagher (pictured) as new chief executive to replace David Knox, who resigned in August.

The announcements follow the completion of a strategic review announced in August, after an 82 per cent dive in first half profit forced it to cut jobs, slash capital expenditure and lose its chief executive.

Santos has been weighed down by \$8.8 billion of debt tied to its newly-opened Gladstone LNG project in Queensland, and will use all the proceeds to pay down debt.

"We are very confident that the steps taken today will drive better returns for shareholders by strengthening the company's financial position," chairman Peter Coates said.

Morningstar analyst Mark Taylor said the raisings will weatherproof the oil and gas producer against a sharp fall in energy prices.

"A mix of equity raising and asset sales is a good idea. Some of the perceived pressure will be off now," he said.

Santos' decision follows months of investor pressure to raise capital in an effort to ride out weak oil prices, which have halved over the past year to below \$US50 a barrel.

Santos shares have more than halved in the past year. It also comes on the heels of a \$7.1 billion takeover bid last month from overseas fund Sceptre, backed by members of the ruling families of Brunei and the United Arab Emirates. Santos rejected the \$6.88-a-share bid as too low.

However, the issue of shares at a sharp discount is likely to cause disquiet among investors.

Santos is offering shares under the 1-for-1.7 rights offer at \$3.85 a share, a steep 35 per cent discount to Friday's closing price of \$5.91. Its shares are in a trading halt until Thursday this week.

The company will issue shares to [Hony Capital](#) at \$6.80 each. However, Hony will be able to raise its stake to nearly 10 per cent by acquiring further shares at the discounted price under the rights issue.

Santos operates the Gladstone LNG project and holds stakes in oil and gas production in Australia, Indonesia and Vietnam, apart from a 13.5 per cent interest in the Papua New Guinea LNG project. It said yesterday its new chief executive will join the company in early 2016.

CO\_sants : Santos Ltd

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