

FINANCIAL REVIEW

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HD **Origin's King bets on Browse growth**
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Origin **Energy** has shrugged off market worries about the waning competitiveness of Australian LNG, agreeing to invest up to \$US800 **million** (\$859 **million**) to buy into the Poseidon gas venture off the north-west coast which is expected to cost more than \$US12 **billion** to develop.

The surprise investment, to be funded by a \$1 **billion equity** raising later this year, means managing director Grant King has acted early to try to lock in the next phase of growth for Origin after its \$24.7 **billion** Australia Pacific LNG project starts up next year.

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The deal represents a major success for cash-strapped **oil** and gas junior Karoon Gas Australia, which will sell its 40 per cent **stake** in Poseidon, operated by ConocoPhillips, to Origin for a price higher than its market value last Friday.

Mr King acknowledged the timing of the deal was sooner than he'd have liked, given the work Origin has on its plate to bring APLNG into production and weather the competitive pressures in the core **energy** markets business.

"There are risks in action and risks in inaction and at the end of the day the timing of this opportunity was not of our choosing," Mr King said.

"But there's no guarantee that opportunities will arise at a later point in time and almost invariably when they do they're a lot more expensive."

The deal, if completed, would bring Origin into the Poseidon venture in the Browse Basin alongside Conoco, Origin's partner in APLNG, and **Chinese oil** giant PetroChina.

Conoco is aiming to pipe gas from Poseidon to its producing LNG plant in Darwin if the field is big enough.

Gas from Poseidon would extend the life of the existing LNG plant at Darwin, and also underpin an expansion, particularly if combined with gas from other undeveloped fields in the remote area.

Mr King said a final investment decision to develop Poseidon could come in 2017, with production by 2020.

Karoon shares, which had been halted from trading for a month as the **company** sought to resolve funding difficulties, surged 43 per cent to \$3.51.

Origin sank 3.6 per cent to a six-week low of \$14.55, signalling some investors have reservations about the deal.

However Suhas Nayak at investor Allan Gray gave the move guarded support. "This is in the middle of a couple of big developments, like APLNG, and also some challenges in their existing business," Mr Nayak said.

"But I can see a plausible reason to look at this asset given the challenges that Karoon has had with it in terms of financing. There are reasons to believe it could be good."

Mr King pointed to the escalating cost of discovering **oil** and gas resources in Australia, and the time involved, which meant it was better for Origin to buy into existing finds.

"Exploring your way to success is a long and risky journey," he said. "Relative to Origin's size this opportunity is not that expensive, frankly."

The transaction, which is still subject to pre-emptive rights held by Conoco and PetroChina, would deal Origin into another of Australia's LNG export hubs in Darwin, in addition to Gladstone, where APLNG is based.

Under the terms of the deal, first reported in Street Talk, Origin will pay \$US600 **million** up-front, plus further payments of up to \$US200 **million** as progress is made toward production. 'Strong' price

Macquarie Equities described the price as "strong", while UBS said the deal was priced more than a third higher than its carrying value for Karoon of \$481 **million**.

However, assessing the price depends on how much gas is held in Poseidon. Origin referred to an estimate of 3.25 trillion cubic feet, while Karoon has a "high estimate" more than double that, of 7.6 tcf.

Origin would initially fund the **acquisition** from its \$5.6 **billion** of undrawn debt, to be later refinanced through the share **sale**, which would also fund other growth projects such as the Ironbark **coal** seam gas venture in Queensland. The raising will take place after Origin's full-year results on August 21.

Karoon chief operating officer Edward Munks described the deal as "a good outcome for both companies".

"They are big assets and big cheques need to be funded, and it depends on does it fit people's strategy at this time - obviously it fits with Origin's," he said.

Mr Munks said proceeds from the deal would help fund drilling in Karoon's Brazilian acreage.

CO	aulngj : Australia Pacific LNG Pty. Ltd. boral : Origin Energy Ltd karoon : Karoon Gas Australia Ltd philp : ConocoPhillips
IN	i1 : Energy i13 : Crude Oil/Natural Gas i1300004 : Liquefied/Compressed Gas i16 : Electricity/Gas Utilities i162 : Gas Utilities iexplo : Natural Gas/Oil Exploration iutil : Utilities
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