Woodside snaps up Apache's LNG stakes

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Shopping list: Wheatstone LNG will be added to Woodside's roster

WOODSIDE Petroleum is set to buy Apache's liquefied natural gas (LNG) assets in Canada and Western Australia in a deal worth some $3.7 billion.

The cashed up Australian LNG developer, which needed to make an acquisition to expand, will buy stakes in both the Chevron-operated Wheatstone and Kitimat LNG export projects.

A 13% share in the Wheatstone scheme adds 1.1 million tonnes per year (t/y) to Woodside's LNG portfolio, but adds the risk of cost over-runs, which have been prevalent in Western Australia.

The project will have a capacity of 8.9 million t/y and is estimated to cost $29 billion or $3,258/t, making it one of the most expensive LNG facilities in the world, although Woodside's remaining capital exposure is only $1.8 billion.

But it will boost Woodside's production in the near term with Wheatstone due to start-up in 2016.

The Perth-based company will also take a 65% stake in the Julimar-Brunello upstream gas development off Western Australia that will feed Wheatstone. Any future surplus gas could potentially be syphoned off to Woodside's 4.3 million t/y Pluto plant, which is yet to be expanded due to a lack of feedstock. But Woodside made no mention of any potential synergies resulting from the deal.

Meanwhile, Apache's proposed 10 million t/y Kitimat venture on Canada's Pacific coast, where Woodside will take 50% of the project alongside Chevron, is at a much earlier stage and is yet to start construction.

The deal includes some 320,000 acres in the Horn River and Liard basins, giving Woodside its first upstream gas position in western Canada, where it has been working to progress its own LNG export terminal in British Columbia.

The sale also includes a 65% stake in the Balnaves oil project off Western Australia with immediate production of around 30,000 barrels per day.

Apache put its assets up for sale earlier this year as shareholders pressured the company to focus on its North American shale business. Woodside had always been the leading contender to pick up the assets, but the last rival bidder pulled out after the latest plunge in oil prices, reported the *Australian Financial Review*.

Given oil prices of $80 per barrel – which is where the five-year contract price is – the deal price is in line with valuations from energy research company Wood Mackenzie.

The acquisition will lift Woodside's proven reserves by 19% and proved plus probable reserves by 20%, while boosting its LNG production profile.

Risk assessment

But there are risks. Canadian LNG will struggle because of lower commodity prices. The economics of Kitimat LNG exports remain unclear.

"In an increasingly competitive LNG world, getting a final investment decision on Kitimat in the next five years will not be easy. Woodside lacks onshore shale experience (which we expect Chevron to lead on) and have no operating experience in Canada," noted Bernstein, a research firm.

While the shale-gas resource base is enormous at 40 trillion cubic feet, the infrastructure costs will be high too, given pipeline costs and land issues, added the firm. Still, with other growth options, including Browse, looking increasingly unclear, the acquisition of Apache's LNG assets make sense strategically for a company focused on being one of the world's leading LNG companies, said Neil Beveridge, a Hong Kong-based oil and gas specialist at the firm. He described the value of the deal as "fair".

Woodside has been hoping to move ahead with its Browse venture off Australia as a floating LNG development but revealed a delay in pushing the project into front-end engineering and design by the end of the year. Woodside said that decision has now been delayed until at least mid-2015 as the joint venture partners, which include Shell, Mitsubishi, Mitsui, PetroChina and BP, seek a cheaper way to develop the scheme in the wake of crashing oil prices.

In light of the market environment and with partners having multiple supply options, it would not be a surprise if Browse were further delayed, said Beveridge.

Apache plans to use the proceeds from the sale to cut debt, buy back shares and pursue other opportunities.

The sale still leaves Apache with oil and gas interests in Western Australia, including its stake in the Harriet gas venture and several other fields, as well as exploration acreage in the Carnarvon, Exmouth and Canning basins. ●