

## Woodside on acquisition hunt

**Damon Evans**  
**SINGAPORE**

**A**USTRALIA'S Woodside Petroleum is poised for a shopping trolley dash that could see it spend up to A\$5 billion (\$4.4 billion) on upstream oil and LNG projects as part of an ambitious expansion drive.

In terms of geography, East Africa and Canada seem the logical hunting grounds.

Analysts expect Woodside to target InterOil, which is involved in upstream oil and gas operations in Papua New Guinea, or Africa-focused Ophir Energy.

UBS bank reckons Woodside could spend up to A\$8 billion on takeovers, using up the bulk of a potential A\$10 billion of available funding capacity. This would leave about A\$2 billion available for an equal-access share buyback.

Woodside's chief executive, Peter Coleman, has made no secret that building new growth is a top priority. And he's prepared to fork out close to A\$5 billion – or roughly 15% of the company's market value – on non-organic options.

### On the radar

Analysts think acquisitions in Tanzania or Mozambique could be on the cards and London-listed explorers Afren Energy or Ophir Energy could be tasty morsels to whet Woodside's appetite.

So too could Canada's Africa Oil, which focuses on Ethiopia, Kenya and Puntland in Somalia.

Apache's 50% interest in Chevron's Kitimat liquefied natural gas (LNG) project in western Canada – which this year was put up for sale – could also entice the Perth-based player to open up its wallet, but growth prospects at that project would only be apparent in the longer term.

Coleman has been quick to dispel whispers that Woodside could also be a potential suitor for an InterOil acquisition. Such a move could be seen as too high risk in advance of the PNG-focused company's Elk-Antelope appraisal campaign, notes UBS.

But speculation persists about interest from the Perth-based player as Coleman spearheaded the development of PNG LNG, the Pacific

nation's maiden LNG scheme, while working for ExxonMobil.

Although few believe any move will happen before an arbitration case between InterOil and Oil Search has been settled, which is expected next year, reported the *Australian Financial Review*. Woodside has also been mooted as a possible buyer of Apache's A\$2.4 billion interest in Chevron's Wheatstone LNG project in Australia.

The stake includes 13% of the LNG export scheme, as well as a 65% interest in two fields.

Chevron, which controls 64.2% of Wheatstone, might consider hiving off around a quarter of that share to a potential buyer.

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But Coleman has hinted that undeveloped resources would be of most interest to Woodside, which can use its offshore and gas commercialisation expertise to add value.

The Woodside chief executive is expecting more merger and acquisition opportunities to come onto the market at better prices as competition from the Chinese national oil companies (NOCs) recedes.

Speculation that the company will make a takeover bid increased after Woodside walked away from a deal to enter the Leviathan gas development project offshore Israel earlier this year.

Aside from buying in new projects from the outside, Woodside hopes to generate cash from existing resources through the proposed Browse floating LNG scheme off Australia.

A final investment decision is targeted in 2015. But analysts at Wall Street research firm Bernstein expect a completion date for Browse will be pushed into mid-2016, given joint-venture partner Shell's focus on reining in capital spending.

Meanwhile PetroChina's recent supply deal with Gazprom leaves the NOC in no rush to develop more gas supply just yet.

In exploration, Woodside has ramped up activities both at home and overseas. But efforts to expand through use of the drill bit have

started late and a transformation will take time. The company plans to spend A\$480 million on exploration this year, while yearly exploration spend is expected to rise to A\$650 million in the years ahead as Woodside eyes new areas.

Since late 2012 the company has entered at least eight new international basins, although drilling in most is not expected to start until 2015 or later.

Closer to home, Woodside will start drilling the Hannover South prospect in the Outer Canning basin off northwest Australia, targeting several trillion cubic feet of gas.

The area, which is being drilled, is the first of eight wells across three permits, and will be followed by the Steel Dragon and Anhalt wells in the same basin.

### High cost

While the Outer Canning basin holds large gas prospects in Woodside's core North West Shelf area, any finds will be costly to develop, given the extreme water depths, remote location, likely lack of liquids, and Australia's high cost as a resources base.

Bernstein feels Woodside's exploration portfolio looks too diverse and is weakened by variable quality, meaning the assets are unlikely to yield results in the near term.

"While we like Myanmar and arguably Peru (although high risk), other areas such as Ireland, New Zealand and Spain look less appealing," the consultancy said.

Woodside will take part in its first probe in the Canary Islands, potentially as early as this year, with its maiden well targeted off Myanmar in late 2015, around the same time as an initial well targeting oil in Peru.

It has also picked up acreage in Tanzania, Morocco and Gabon, where wells are planned after 2015.

Coleman has hinted that further moves into new areas could be made, with the focus still on the Atlantic margins, sub-Saharan Africa and Australasia.

Still, Woodside has a patchy record of drilling success. None of the 18 finds made from 57 wells drilled since 2007 have made a major contribution to reserves or begun production, data from Deutsche Bank shows. ●