Citi and Goldman hit Woodside jackpot

The two bankers will share the $3.2bn sale of Shell's holding

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FOR bankers, Royal Dutch Shell's $5.3 billion selldown of its stake in Woodside Petroleum has been a long time coming.

But those left at the altar, notably UBS, were yesterday ruing missing out on underwriting the year's largest equity capital markets deal, hot on the heels of being overlooked for Medibank Private's looming $4bn float.

After Shell's adviser Rothschild contacted banks on Monday night, Citi and Goldman Sachs got the nod for the $3.2bn institutional leg of the deal by vowing to underwrite it at $41.35 a share — a skinny 3.5 per cent discount.

UBS, Bank of America Merrill Lynch and Morgan Stanley also bid but lost out, ending years of suspense after relentless pitching by banks for the sale.

Gresham, which Woodside chairman Michael Chaney is linked to, is advising the oil and gas company and helping with its off-market buyback of half of Shell's stake.

Demand was said to be healthy locally and from Asia yesterday, leaving Citi and Goldman hostage to interest from offshore investors overnight.

While the US banks' winning bid was viewed as "aggressive", bankers said all the stock would likely be sold and clients focused on the net cost, rather than just what share price banks will underwrite at.

Banks typically charge fees of 25-100 basis points on block trades, sources said.

"It's the net price — you bid on (stock) price and you bid on fees," one banker said. "Every 10 basis points on a $3bn deal, one 10th of 1 per cent, is $3m."

After dominating block trades in recent years and handling Shell's 2010 sale of a $3.3bn chunk of Woodside — the largest block sale in Australian corporate history — UBS's omission didn't go unnoticed.

"UBS is probably the most aggressive Australian bank in terms of blocks, so that was a surprise," said a senior equity capital markets investment banker, who declined to be named.

Another banker said while UBS wasn't happy about missing out, taking on $3bn of risk was "massive" and may have required sign-off from Switzerland. "For a firm like UBS, notwithstanding how good they are domestically, you've got to go global to find buyers and you never know what you'll find," he said.

The Woodside deal will push Goldman and Citi to the top of the fiercely competitive league tables in equity capital markets, displacing UBS, Morgan Stanley and Macquarie, according to Thomson Reuters. Goldman also leads Macquarie and UBS in announced takeover activity.

While UBS's recent management reshuffle has led to speculation the bank would suffer as senior leaders Matthew Grounds and Guy Fowler ultimately step back, former UBS bankers dismissed this and said the Australian franchise remained in good shape. While UBS missed out on Medibank — won by Deutsche Bank, Goldman and Macquarie — it has done the majority of mid-market floats in the past year and is mandated on Healthscope's large sale process.

Deals by value

GOLDMAN SACHS	**$US3.3bn**
CITI	**$US2.6bn**
UBS	**$US2.2bn**
MORGAN STANLEY	**$US1.8bn**
MACQUARIE	**$US1.3bn**

Source: Thomson Reuters

A big day for Aussie battler that struck big

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Another 9.5 per cent gets pushed off to institutions at $41.35 a share, the difference in pricing being explained by the tax-effective way in which the selective buyback of shares can be done, courtesy of private tax office rulings.

It is a good deal for those Woodside shareholders left behind. They are in effect buying 9.5 per cent of the company at a 14 per cent discount to Woodside's five-day average, with the reduced issued capital delivering immediate earnings and dividend accretion.

There has and will be more noise about the selective nature of the buyback. Clearly some other shareholders would also have liked to have got a thumping tax-effective dividend payment in consideration for their shares as is the case with Shell.

But rest assured, the independent expert's report for the shareholder meeting needed to approve the deal is bound to find that the benefits to remaining shareholders overwhelm other considerations. Shell's exit does away with the perception that its stake has been overhanging the market in Woodside shares, depressing the share price.

That Shell has moved on now reflects two factors. The flare-up in the Middle East has driven oil prices 10.7 per cent higher since the start of the year, carting along Woodside's share price in the process. Woodside shares are 10 per cent higher in the same period. But more importantly, the oil-price inspired run in its share price has carried the stock back above $40 a share.

That put Shell within spitting distance of the $42.23 a share it received in November 2010 when it began its Woodside exit.

Selling at below $40 a share was never a serious option.

Woodside has been seen as an ex-growth stock following its failure to secure a new growth option beyond its delayed Browse project. Woodside tried long and hard to work its way into the giant Leviathan gas project in Israel but failed, walking away at the last moment. That left it short of options to spend the cash it is accumulating now that producing LNG assets offshore Western Australia are mature.

Now it gets to buy the next best thing — itself, with independence thrown in as part of the package.

Partner's selldown solves two problems at one stroke for Coleman

WILL RUSSELL
Woodside CEO Peter Coleman says Shell's sale won't slow the company's ambition to grow

It removes market uncertainty and frees up the balance sheet

STEPHEN BARTHOLOMEUSZ

Business*Spectator*

IT was a good day for Woodside Petroleum's Peter Coleman and his chairman Michael Chaney, who have just solved two problems in one $6 billion hit.

Well, actually it's two hits: a $2.86bn buyback of 9.5 per cent of Woodside's capital in tandem with Shell's sale to institutions of another 9.5 per cent that will raise another $3.23bn for the oil and gas major.

It's a big day for Woodside because for the past 13 years, ever since Peter Costello blocked a $10bn Shell bid for Woodside on national interest grounds, Shell's stake in Woodside has overhung the market in its shares.

Shell's initial sale of a 10 per cent stake in 2010 for $3.3bn only confirmed the status of its remaining 23 per cent shareholding.

After yesterday's announcements, assuming Woodside shareholders approve a buyback that would occur at a 14 per cent discount to the market value of their shares and almost 12 per cent below the price paid by the institutions, Shell will be left with only 4.5 per cent of Woodside.

Woodside has made it clear over a long period that it would prefer that Shell offloaded the shareholding and removed the uncertainty that has hung over the market in its shares. Now it has its wish.

The other "problem" that the buyback addresses is Woodside's financial position. It's too strong!

Cash has been pouring through the group since it completed the Pluto project and sold down some of its exposure to the Browse project to Mitsui and Mitsubishi.

While it has increased its dividend payout ratio and paid a special dividend totalling $520 million last year, that points to a rather large gap in its development program and future growth profile. That question mark over its ability to grow was enlarged when it walked away from the Leviathan LNG project in Israel recently.

Browse was supposed to fill the gap but the massive blowout in the cost of the proposed onshore processing facility at James Price Point (to an estimated $80bn) has put that project on hold while the partners explore the potential of Shell's floating LNG technology as a possibly lower-cost and lower-risk approach.

In the circumstances, buying back its own shares at a solid discount to their market price and removing the overhang from the market is a sensible way to use some of its excess balance sheet capacity and leverage its returns to continuing shareholders.

The sale of all but the residual 4.5 per cent shareholding won't end a relationship between Shell and Woodside that dates back to the early days of the North West Shelf project, when Shell supplied Woodside's key executives and its LNG expertise. Both companies remain joint-venture partners in the Shelf, as well as the Browse and Sunrise projects.

The Shell sale of most of its Woodside shareholding follows its exit from its downstream businesses in Australia earlier this year, selling them to the Swiss-based energy and commodities trader, Vitol.

Under new chief executive Ben van Beurden, since the start of this year Shell has accelerated a global asset sale and cost reduction program to try to generate more growth from a more focused portfolio, while seeking to significantly increase its gas production and reserves. It has been investing heavily in its upstream business in Australia in recent years.

Within a program seeking to unlock tens of billions of dollars of capital over the next couple of years, the non-strategic but very valuable Woodside stake would have been an obvious and easy target for a sale and Woodside itself an obvious and willing facilitator.

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Shell out: new era dawns for energy giant

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How *The Australian* foreshadowed the news on January 2 this year

But Woodside chairman Michael Chaney said the deal offered superior benefits to shareholders than either an on-market buyback or an equal-access off-market buyback, which he said would have provided less certainty on price and quantum.

"The combined transaction is the only initiative that facilitates an orderly reduction in Shell's stake in Woodside," he said.

Mr Coleman revealed yesterday that Woodside and Shell had considered an asset-swap deal instead of a buyback but had run into difficulty over market valuations and this option was abandoned "some time ago".

However, it is understood that Woodside's difficulties in buying into the Leviathan project over the past 18 months may have been a catalyst for the change in scope of the deal away from an asset swap.

Mr Coleman said the buyback would give Woodside a more efficient capital structure. It would be materially accretive to EPS by around 6 per cent and would have flow-on benefits to dividends per share.

He said the combined selldown and buyback would end the uncertainty surrounding Shell's overhang. "This is a natural transition for Woodside in the evolution of the company," Mr Coleman said.

"It's the first time in many, many years that we've not had a substantial shareholder on our register.

"Now we look very much like most of our peers in the marketplace. The market will be able to fully value us."

Mr Coleman said he wanted to see a deal that took Shell to below 5 per cent on the share register.

"It means they are not a material shareholder on the register any more and of course some of the obligations that go with that are no longer current," he said

The selldown is due to be completed by 10am today, at which time Woodside shares will resume trading. Woodside said the buyback was subject to shareholder approval, an independent expert's report and consent under a number of Woodside's facility agreements.

Shell chief executive Ben van Beurden said in a statement that the sale was part of the company's drive to improve capital efficiency and to focus its Australia growth in directly owned assets.

"It doesn't change our view of Australia as an important player on the global energy stage, or Shell's central role in the country's energy industry," he said.

Shell had long signalled it would sell down its stake in Woodside, a legacy of the Anglo-Dutch giant's 2001 takeover bid which was rejected by then treasurer Peter Costello.

BP in $20bn LNG deal with China

BRITAIN'S BP will sign a $20 billion long-term contract to supply liquefied natural gas to southeast China, the company's chief executive said last night.

Speaking to reporters at the World Petroleum Congress, Bob Dudley said the 20-year deal will be signed with Chinese state-owned CNOOC in London in front of British Prime Minister David Cameron and Premier Li Keqiang during the Chinese leader's three-day visit to Britain this week.

"It is a big deal, a fair price for them, a fair price for us ... and a good bridge between the UK and China in terms of trade," he said.

The deal to supply energy-hungry China will follow a $400bn agreement between state-owned CNPC and Russian natural gas giant Gazprom to pump gas from untapped fields in east Siberia to China, signed in May.

Gazprom CEO Alexei Miller said the two sides had signed a contract worth a total of $400bn over its 30-year life.

"This is Gazprom's biggest contract. We don't have a contract like this with any other company," Mr Miller said.

The contract called for supplies of 38 billion cubic metres of gas a year.

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