

ConocoPhillips quits northern Australia in \$1.4 billion sale to Santos

By Sonali Paul, Reuters October 13, 2019

MELBOURNE (Reuters) - ConocoPhillips ([COP.N](#)) has agreed to sell its northern Australian business to partner Santos Ltd ([STO.AX](#)) for \$1.39 billion, in a deal that will hike the Australian group's output by 25% and boost its position in the global gas market.

The deal, which was not unexpected, marks the second major acquisition by Santos in less than a year, following a sharp turnaround in its fortunes under Managing Director Kevin Gallagher, and pushed its shares up 7% in early trade on Monday.

ConocoPhillips, which has been focusing on its U.S. shale assets, will quit the Darwin LNG plant, which it opened in 2006, and gas fields off northern Australia, but hold on to its stake in the Australia Pacific LNG plant in Queensland state.

"While we believe the Darwin LNG backfill project remains among the lower cost of supply options for new global LNG supply, this transaction allows us to allocate capital to other projects," ConocoPhillips Chief Operating Officer Matt Fox said in a statement.

The move comes as the Bayu-Undan gas field that feeds Darwin LNG is set to run dry in 2022 and the project's owners near a decision on which field to develop next to keep the plant open, with Santos aiming to develop the Barossa field.

"The big prize here is pushing forward with development (of Barossa) and setting up the framework to develop other resources in the region over time," Gallagher told reporters on a conference call.

The deal, set to close in the first quarter of 2020, is expected to boost Santos' earnings per share by 16% and increase its production by 25% in 2020, the company said. It adds to its stakes in the Gladstone LNG project and PNG LNG in Papua New Guinea.

Santos has agreed to pay a further \$75 million if a final investment decision is reached on developing the Barossa field. It plans to fund the whole acquisition out of cash and new debt.

DARWIN STAKE SALE

The deal gives Santos control over the future of Darwin LNG, the second-oldest of Australia's 10 LNG plants, at a time when it is vying against several LNG projects worldwide to line up gas buyers to extend its life.

"It seems like a good deal. They go from being a small joint venture partner to being the operator," said Stephen Butel, an analyst at Platypus Asset Management. "It allows them to take control of the situation there."

Santos will acquire ConocoPhillips' majority stakes in Darwin LNG and Bayu-Undan, as well as a 37.5% stake in Barossa, but will aim to cut its stakes in Darwin LNG and Barossa to about 40%-50%.

It said it has already reached a preliminary agreement to sell down a 25% stake in Darwin LNG to its Barossa partner SK E&S of South Korea.

It was also in talks with other Darwin LNG partners, which include Japan's Inpex Corp ([1605.T](#)), Italy's Eni SpA ([ENI.MI](#)), Japan's JERA ([9501.T](#)) ([9502.T](#)) and Tokyo Gas ([9531.T](#)), to sell equity in Barossa and Darwin LNG.

At the same time, Santos said it is aiming to line up contracts for 60%-80% of LNG volumes for more than 10 years before taking a final investment decision on Barossa — the first time it has spelled out a target for contracts.

"It's very competitive. It's positioned well. We're very confident we'll get it away. And it's got very robust economics even in this soft market that we find ourselves in today," Gallagher said.