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Slippery choice

CRITERION
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Woodside Petroleum (WPL) $36.28
AN (almost) sure-fire investment tactic is to pick up a proven blue-chip performer when sentiment towards the stock has dipped temporarily. The tricky part is working out the "temporary" bit, but we're game to suggest there's now a rare opportunity to pick up Woodside, our premier oil and gas producer, during such a crisis of confidence.

Woodside has retreated from its record high of $49.80 in mid-April and from above $40 over the past month - the result of the easing oil price, production hiccups and cost blowouts.

At yesterday's investor love-in in Sydney, management broke the news that calendar 2006 production would be 67-68 million barrels of oil equivalent (mboe), around 6 per cent down from the (already revised) 72mboe indicated back in July.

Culprits are "technical issues" which will delay production from the Victorian Otway gas joint venture for nine months, a shutdown at Enfield off Western Australia and disappointing production from the Chinguetti well off Mauritania.

That's all bad news, but not entirely out of the blue in that Woodside earlier flagged it would struggle to match full-year forecasts, despite record September-quarter production of 19.1mboe. Woodside chief Don Voelte yesterday assured investors that 2007 output would bounce back to 75-80mboe "with 2008 better than 2007".

In the longer term, Woodside's array of growth projects - such as its $6-10 billion Pluto LNG project - promise strong future revenues. Woodside expects to be a 100mboe producer by 2010, about 70 per cent of which is from existing or committed production. In 2011, output is targeted at 140mboe, but half is speculative in that it's from production opportunities or "risked exploration".

At around $US58 a barrel, the world oil price is well off the record $US78.40 reached in July. Our safest prediction on oil prices is they'll remain unpredictable but Fat Prophets' more definitive view is there's looming supply pressures which will push the price up again.

On the fund manager's reckoning, American influence in the Middle East has been emasculated by the Democrats storming Capitol Hill. Even if the US doesn't pull out of Iraq, there are knock-on effects such as opponents of Saudi Arabia's US-backed royal family becoming more emboldened.

We don't think investors should be overwhelmed by their short-term (albeit legitimate) concerns about Woodside. In Voelte's words: "We should have done things better (in 2006) though we did - and still do - many things really well." BUY.

Macarthur Coal (MCC) $4.30

THERE'S nothing like the distraction of corruption allegations to throw a company off its game. Just ask AWB, where the contagion of the Iraqi wheat affair has affected every recess of the organisation.

On Monday, Macarthur chief and major holder "King Coal" Ken Talbot, stepped down to "devote himself to issues related to his private companies", leaving deputy CEO "Queen Coal" Nicole Hollows to bat questions at yesterday's AGM.

The "issue" is Talbot's $300,000 loan to former industrial relations minister Gordon Nuttall through one of Talbot's private companies.

Should Macarthur holders really be nervous about the Ken-alarm-thee Loans Affair?

While a Crime & Misconduct Commission probe is in process, Macarthur chairman Keith de Lacy yesterday said the investigation would not disrupt Macarthur's operations.

Macarthur shares have retracted from the $4.60 levels in mid-October, partly on news of the scandal. But there's also the question of the group's lacklustre quarterly production report, released on November 2.

September-quarter production of 1.02 million tonnes was well down on the previous corresponding 1.2mt, but Macarthur is sticking with a full-year target of 4.5mt.

Macarthur reports flat demand for high-grade coking coal, but steel mills are opting for cheaper alternatives such as Macarthur's specialty, intermediate-grade pulverised coal injection (PCI) coal.

On balance, the outlook is not good, not bad. No one's been factoring in huge price or volume improvements for Macarthur following last year's bumper conditions.

In terms of the loans affair, there's a danger the company will suffer as Talbot is sucked into the inquiry. Bribery charges are possible if he or Macarthur are proven to have benefited from the loan to Nuttall.

Criterion suspects the financial impact to Macarthur will be minimal. Successful organisations roll on no matter who departs, while Queensland business and politics have long been synonymous with what we politely term the mateship ethic.

Talbot, who has numerous other business interests, was seen to be paving the way for a longer-term retreat from managing the business, recently promoting Hollows to CEO and Shane Stephan to chief numbers man.

In any event, Hollows has the market's respect: no mean feat for a sheila in the coal game.

Hollows yesterday told holders to expect full-year profit of $63-73 million, well south of the record $150 million in 2005-06 (analysts already had factored in a sharp fall).

Despite its recent setbacks which include sacking its Coppabella operator Roche, Macarthur remains on track to double production by 2011. However, more grandiose plans to take the company offshore will be sidelined along with Talbot.

We last rated Macarthur a BUY at $4.60 on September 14 and are happy to reaffirm that rating. Both of Macarthur's mines, Moorvale and Coppabella, have their production challenges, but the main constraint will continue to be supply bottlenecks at the main Dalrymple Bay loading terminal.

Centennial Coal (CEY) $2.95

MACARTHUR Coal stock looks cheap, but not in the same league as Centennial's following the NSW producer's 90c, 24 per cent share caning yesterday.

We fear there's good reason for the sell-off. Announcing its long-awaited restructuring yesterday, Centennial said it would close its troubled Newstan mine from 2008, rather than sell it as many had assumed.

Centennial's efforts will focus on its "world class" Anvil Hill open-cut project and "developing the full potential" of its Tahmoor coking coal mine, which has also had its share of production problems.

We rated Centennial a "buy" at $3.33 on September 1, in the hope the company would recover following the Newstan production losses which directly cost $35 million and shred full-year profit to a mere $17 million.

Management yesterday guided full-year net profit of $45-55 million and that's ahead of a $34 million non-cash charge relating to Newstan. Before yesterday, investors expected a result north of $100 million.

While Centennial is a potential takeover target, we think investors should cut their losses and SELL.