

Frenzy over BHP oil sale speculation

Nigel Wilson | *December 10, 2007*

BANKING majors including Goldman Sachs, UBS and JP Morgan are sniffing around BHP Billiton, speculating that a merger with Rio Tinto might lead BHP to float or sell off its petroleum assets into a separate \$80 billion company.

Rio has no petroleum interests and its chief executive Tom Albanese is unimpressed with oil and gas.

Markets are speculating that BHP could combine its Australian petroleum assets with those of Woodside.

With BHP's petroleum operations valued at about \$50 billion and Woodside's market capitalisation of more than \$30 billion, the combined company, at \$80 billion, would be among Australia's largest.

"The majors are just salivating that this could come off," said one Perth-based analyst who asked not to be named.

"It would rank in the top 20 of global oil and gas businesses and give Australia real clout."

In a merged BHP/Rio, the petroleum division would account for only around 10 per cent of the total combined business.

One possibility being discussed is an initial public offering that would have BHP, Woodside and Shell, a 34 per cent shareholder in Woodside, as foundation investors with a proportion of the entity listed on the Australian stock exchange.

The concept of the "Big Australian Oil Company" has been raised many times in the past three decades.

But analysts say the possibility of the huge BHP/Rio deal makes it more possible.

Mr Albanese says the mining business involves longer-term investments with longer-term pay-offs than the oil and gas business, where "everything is quick, quick, quick".

BHP's petroleum operations contributed about 20 per cent of the giant's global earnings but they had remained flat in the past three years, meaning the division's contribution as a percentage of total BHP Billiton earnings had fallen as other commodities in the giant's investment suite soared.

But the next two years should see BHP Billiton benefit from several years of investment in projects coming on stream, particularly in the Gulf of Mexico and the North West Shelf.

Even so, industry analysts believe a trade sale of the petroleum division would be difficult, given that most of BHP Billiton Petroleum's assets are in Australia, specifically half of the Bass Strait oil and gas fields and one sixth of the North West Shelf export LNG project, Australia's biggest single resources development.

BHP Billiton is also heavily involved in new oil projects on the North West Shelf which will offset the country's increasing costly dependence on imported oil and refined product.

The previous federal government in 2001 blocked Shell gaining control of Woodside on the grounds of national interest.

It is thought that with the greater global concern about national energy security that has emerged in the past six years, the new Rudd Labor Government will not favour ownership of these key assets being further diluted overseas.

Another possibility is the floating off of the division into a separate company which Ray Chantry of EL&C Ballieu estimated could bring in \$50 million, or roughly \$10 for each BHP Billiton share.

Woodside has been concerned that with three of its board members coming from the Anglo/Dutch giant its independence is compromised.

Shell has retired its chairman in Australia, Russell Caplan, from the Woodside board and is reported to be negotiating to sell its North West Shelf oil business to the aggressive Beijing government-owned China National Offshore Oil Corporation.

But Shell maintains that its investments in Australian offshore gasfields and developments are a key to its aim to be a major supplier of LNG to north Asian markets.

It is usually a minority stakeholder in any projects in which it invests.

The concept of a combined BHP Petroleum/Woodside is not new to Shell.

In 2001, after its \$10 billion Woodside bid was blocked, Shell's international board met in The Hague and considered exiting Woodside by "facilitating a BHP Petroleum/Woodside merger".