Australian Financial Review
Thursday 4/12/2008
Page: 19

Woodside puts money back into North-West Shelf

Paul Garvey

Woodside Petroleum has signed off on a further $600 million in capital expenditure commitments, with the oil and gas producer and its partners in the North-West Shelf project approving a $1.8 billion oilfield redevelopment.

Woodside, which is currently constructing its $14 billion Pluto liquefied natural gas development in Western Australia, yesterday said it and its partners would replace the floating production, storage and offloading (FPSO) facility currently servicing the Cossack, Wananaea, Lambert and Hermes (CWLH) fields off the coast of WA.

While the move will add significantly to the partners' upfront capital costs, the partners will benefit from increased operating margins.

Woodside holds a 33 per cent interest in the field, having bought out Royal Dutch Shell's 16.7 per cent interest in the North-West Shelf venture's oil assets last year.

BHP Billiton, international energy giants Chevron and BP, and Japan's Mitsubishi Corporation each hold 16.7 per cent interests in the assets and will each contribute $300 million to the redevelopment.

The partners had been considering leasing the vessel that will replace the existing FPSO, but eventually opted to buy outright the Okha floating storage and offloading facility and add a production component.

The cost of the redevelopment had already been factored into Woodside's capital expenditure projections, which it expects will increase in 2009 by 35 per cent to about $6.9 billion.

Analysts estimate that Woodside will require at least $3 billion in extra capital during 2009 in order to help fund its development plans.

Woodside plans to fund its capex through a mixture of cash flow and its dividend reinvestment plan and debt, with the latest commitment to be fully funded from its balance sheet.

"The CWLH project is one of Australia's most enduring and reliable oil developments, and this redevelopment decision will ensure continued safe and reliable production from these fields for many years to come," said Woodside's executive vice-president North-West Shelf, Eve Howell.

The redevelopment will extend the field's life beyond 2020.

The rapid fall in international oil prices since May has stoked investor fears that Woodside could be forced to carry out an equity raising to help meet its substantial capital expenditure commitments, causing weakness in the company's share price.

Citigroup analyst Di Brookman earlier this week played down the likelihood of an equity raising by Woodside, saying Woodside's "best of breed" status would ensure the company was at the top of the list when banks and other financiers are allocating capital.

Ms Brookman said debt still appeared to be a cheaper option for Woodside than an equity raising, while selling a 14 per cent stake in the Pluto development could raise around $1.6 billion and reduce funding requirements.

"We believe that concern about an equity raising has been overstated and Woodside's recent underperformance combined with the value underwritten by its existing business creates a lower risk investment proposition," she said.

Woodside shares yesterday closed down $1.03 to $31.38.

FRA 019

This is one of Australia's most enduring and reliable oil developments.
Woodside's Eve Howell