

# Wood Mackenzie comments on Santos's acquisition of ConocoPhillips' Australia assets

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Santos announced today its plans to acquire ConocoPhillips's northern Australian portfolio. Wood Mackenzie senior analyst David Low said:

"This is a logical and attractive transaction for a number of reasons. It consolidates existing equity participation across the Barossa, Bayu-Undan and Darwin LNG assets. The deal will now act as a catalyst for further alignment of equity across the three projects. South Korea's SK E&S is expected to make the first move and acquire 25% in Bayu-Undan and Darwin LNG. Gaining equity alignment across the Barossa project and the Darwin LNG plant would remove a key hurdle for taking FID on the Barossa project.

"This further consolidates Barossa as the leading backfill candidate for Darwin LNG, and puts in place an Australian operator for whom field development will be a portfolio priority. We do not expect this transaction to impact the 2020 FID timeline for the Barossa project.

"The deal fits within Santos's strategy of acquiring low-cost, Australasian natural gas assets. However, even though Barossa is attractive as a brownfield LNG backfill investment, it is also a large and complex project. With over US\$4 billion of CAPEX spend to first gas, executing the development on time and on budget will be a major test of Santos's 'big project' credentials.

"Acquiring control of the key infrastructure asset, Darwin LNG, offers Santos a future option for monetising other stranded Northern Territory (NT) gas assets, such as Petrel, Tern, and Frigate.

"The acquisition increases Santos's equity in Barossa from 25% to 62.5%. However, it will look to farm down its share to around 40-50%. This helps Santos with reaching its 100 mmboe production target by 2025.

"ConocoPhillips's sale of its NT portfolio does not come as a surprise. We predicted in our August insight both a forthcoming M&A shake-up in Australia - particularly around LNG assets - and that ConocoPhillips will look to rationalise its Australian position. We now expect the US company to redeploy this capital into its North American unconventional and Alaskan positions. ConocoPhillips already allocates around 70% of its capital into its US operations, so this sale, following recent Timor Sunrise and UK divestments, is firmly in line with its strategy of reducing international exposure and increasing North American output.

"This will not be the last big deal in the Australian M&A scene, and we are confident there are more major transactions coming down the pipe. Watch this space."