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Woodside still on the prowl for acquisitions

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Woodside Petroleum still has the firepower to contemplate acquisitions of up to $US5 billion ($6.4 billion) even after the $US3.75 billion purchase of LNG assets from Apache and amid an expected prolonged weakness in oil prices, declared chief executive Peter Coleman.

"Woodside is in an envious position in being able to make choices with respect to where we allocate capital in the next two or three years," he said after the company posted a 38 per cent jump in full-year net profit after record revenues and output.

"We expect that there could be some things that free up in the marketplace that interest us, but we are not betting our future on that."

Woodside was contemplating investments in LNG receiving terminals around Asia to complement its growing LNG trading business, and any new acquisitions, which could be debt funded, would be centred around ensuring the delivery of more energy into that region, Mr Coleman said.

Woodside, which had $US6.8 billion in cash and undrawn debt going into the Apache deal, was still tightening its belt to weather the "challenging" market after a 50 per cent dive in oil prices in the second half of 2014. It cut its 2015 investment budget by 20 per cent from two months ago and will slash operating costs by 15 per cent.

Job losses were 320 last year and could be as many again in 2015, Mr Coleman said.

Profit up to $US2.4 billion

Full-year profit rose to $US2.41 billion on revenue that climbed 25 per cent to $US7.44 billion.

Write-downs totalled $US434 million before tax, but only near-term oil production assets were hit, not longer-dated LNG ventures.

Underlying net profit increased 42 per cent to $US2.42 billion, just shy of consensus, with the full impact of the collapse in oil prices yet to filter through to LNG sales. The impact of a 49 per cent surge in LNG prices at the Pluto venture in Western Australia more than offset lower prices elsewhere.

Woodside has delivered more than $US10 billion in free cash flow in the last three years, mostly thanks to Pluto, which allowed it to introduce an 80 per cent dividend payout ratio in 2013.

The final dividend of $US1.44 a share was a record, up 40 per cent from a year earlier. It took the full-year payout to a record $US2.55 a share.

Woodside shares added 4.4 per cent to $36.45, outdoing the benchmark energy index's 3.1 per cent gain.

Alphinity Investment Management portfolio manager Stephane Andre said Woodside's conservative and disciplined approach was paying off in the current low oil price environment.

"It would pay off even more if they could amalgamate even cheaper assets on the M&A side," he said. "If the oil price stays low there would be some assets that they could acquire; that would be a nice thing."

Mr Coleman said the 80 per cent payout ratio could be maintained, despite the slump in prices. Analysts are still estimating the dividend will however, more than halve this year as the full impact of lower prices feeds through to the bottom line.

Production costs down

Woodside lowered production costs last year, and made $US560 million in productivity savings, with more still to achieve to reach its $US800 million target.

"They've got a very good low-cost operating base to leverage off going forward and whatever opportunities the business environment throws up, they can access given their strength of balance sheet," Morgan Stanley analyst Stuart Baker said.

"They're in a pretty good position notwithstanding the downdraft in the industry environment."

The Apache deal, due to complete in late March, will give Woodside a stake in the producing Balnaves oil field that will immediately lift output, as well as an interest in Chevron's $US29 billion Wheatstone LNG project in Western Australia, which is due to begin production in late 2016. But its Browse LNG project is not expected to start production until after 2020, and other ventures such as the stalled Sunrise project in the TImor Sea and the Kitimat LNG venture in Canada are even longer term.

Mr Coleman restated Woodside's target of starting initial engineering and design work for Browse in mid-2015 despite doubts in the market that it will be economic without higher prices.

He said the growth in Woodside's LNG trading business meant that signing up specific LNG sales contracts for Browse was no longer needed to move into engineering and design, and pointed to expectations of lower prices for services contracts.

Even so, some analysts believe Browse LNG would not proceed in that timeframe.

"While Woodside has highlighted a key JV meeting in March 2015 to decide on FEED [front-end engineering and design], we think it unlikely that a decision to move forward with the project will be taken this year given uncertain market outlook and cost pressures," Bernstein Research's Neil Beveridge said.

On Sunrise, Mr Coleman said Woodside could not justify further investment on potential development concepts until it had certainty over fiscal terms. The company last year agreed to reconsider processing gas onshore Timor-Leste to try to move the project forward, without success.

Investment expenditure in 2015 was now expected to be about $US6.2 billion, but that included the Apache acquisition and spending on Wheatstone LNG. In the base business, spending has been cut by 20 per cent from the original plan to $US1.1 billion.

This story was found at: ***http://www.smh.com.au/business/markets/woodside-still-on-the-prowl-for-acquisitions-20150218-13hhj8.html***