Santos Dodges Takeover Talk

Speculation is rife that Santos is a prime takeover target amid a recent spate of consolidation in the petroleum industry.

Talk of the country's second-biggest Coal Seam Methane operator being a target is based on the removal on 29 November of a South Australian state-government imposed 15% cap on individual stakes in the company.

Recently Santos shares surged 9.3% in a single day as Australia's listed coal seam methane (CSM) sector rocketed to a record high adding $1 billion to the value of 17 listed stocks.

Oil majors ExxonMobil, Shell, BP and Total Oil, along with the Japanese and Chinese oil giants, are tipped to make a move on the sector following BG Group's $12.9 billion bid for Origin Energy.

Also in the frame are Asian oil and gas companies, such as China heavyweight Sinopec, which recently took a stake in Australian-listed AED; Japan's Osaka Gas, which has taken an interest in one of Nexus's projects; Japanese-based Itochu, which has taken an interest in a joint project with Anzon and Beach Petroleum; and Mitsui & Company.

Mitsui is a participant in the North West Shelf project through a 50% share in Japan Australia LNG.

Santos Acting CEO David Knox

Acting CEO David Knox told shareholders at the AGM the company was in the process of discussing the potential participation of several parties in its Gladstone liquefied natural gas project, and will finalise its position regarding a joint venture partner by the end of the year.

"There has been significant speculation reported in the media regarding the BG Group proposal to acquire Origin Energy and the ramifications to Santos of that proposal", Santos said.

Santos Chairman, Stephen Gerlach, said the bid represented further recognition of the value of Australian gas resources, and of coal seam gas resources in particular.

Gerlach said the board was extremely pleased with the removal of the ownership cap which it said was no longer relevant.

"The cap's removal ... will mark an exciting new era for Santos as we pursue many growth initiatives, and it will, among others things, provide us with greater flexibility in implementing our capital management strategies", he said.

"The removal of the cap will also place the company in a similar marketplace position to most other significant ASX listed companies."

Mr Gerlach said sufficient coal seam gas existed in eastern Australia for Santos to develop a large-scale LNG export business although it was not the company's only channel for growth.

"Santos has continued to build a portfolio of growth opportunities in both oil and gas in new markets including Vietnam, India and Bangladesh ... in addition to our expanding interests in Indonesia and Papua New Guinea", he said.

The LNG projects, potential expansion of Darwin operations and exploration opportunities in the Browse Basin and Indonesia would transform the company through significant volume growth and margin expansion.

"However, we look forward to a return to production growth in 2009 as volume gains from development projects such as Henry in Victoria and Oyong Phase 2 in Indonesia add to our production", he said.

He said the company was undertaking a comprehensive international selection process to identify a successor to John Ellice-Flint.

Knox said Santos' operating performance in 2007 from its base businesses in Australia was sound and delivered production in line with company estimates despite the Cooper oil project in south-west Queensland performing below expectations.

"A key focus for 2008 is to build a larger inventory of drilling opportunities (at this project) to provide more flexibility, and to continue to optimise the portfolio", he said.