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LNG Ltd vows to go it alone

Infrastructure
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Perth-based Liquefied Natural Gas Ltd said it would build the Fisherman's Landing liquefied natural gas project in Queensland with or without Arrow Energy.

International energy giants Royal Dutch Shell and PetroChina have launched a $3.3 billion-plus conditional takeover offer for Arrow, with talks between the parties continuing yesterday.

The bid is shaping up as the start of a wave of consolidation among companies planning coal seam gas-fed LNG plants around Gladstone in central Queensland.

Shell and PetroChina plan to divert the gas Arrow had intended to process through Fisherman's Landing to Shell's own planned LNG project at Curtis Island.

Arrow and LNG Ltd have been working towards developing Fisherman's Landing for years, with Arrow handling the coal seam gas wells and associated pipeline infrastructure and LNG Ltd owning and planning the liquefaction facilities.

Fisherman's Landing ranks as the most advanced of the LNG projects proposed to date in Queensland, with a target to start production as early as 2012. It is also the smallest.

LNG Ltd managing director Maurice Brand said an LNG plant would be built at Fisherman's Landing, irrespective of whether Arrow was taken over by Shell and PetroChina.

He said the company had been in discussions with other coal seam gas companies since last year over the possible provision of gas to an expanded Fisherman's Landing facility.

"If Arrow are not able to supply the gas or acquire the project, then we have no doubt – absolutely no doubt whatsoever – that we can work with other parties who can supply gas," Mr Brand said.

The pair struck a deal earlier this year that would hand 100 per cent ownership of Fisherman's Landing to Arrow for $51 million in upfront payments, a further $117 million in staggered milestone payments, and royalties. But that deal is yet to be consummated, with Arrow still carrying out due diligence. According to Mr Brand, either party still has the right to walk away from the deal.

He said the company still expected to make a final decision on building the Fisherman's Landing facilities by late March or early April.

"If they [Arrow] don't proceed, then we will be in a position to arrange gas from other parties," he said.

Arrow and LNG Ltd had planned Fisherman's Landing to support two LNG trains, or processing lines, capable of producing 1.5 million tonnes a year each. In contrast, the larger project proposed by Royal Dutch Shell aims to build up to four LNG trains capable of producing 4 million tonnes a year each.

Fisherman's Landing is also planned to be built on reclaimed industrial land north of Gladstone, which has allowed the project to move through the onerous environmental approvals process much faster than the rival projects planned for development on the largely untouched Curtis Island.

Shell is believed to be only interested in building a project of world scale that reflects the technical, financial and marketing expertise of it and its partner. Shell and PetroChina are offering $4.45 for each Arrow share, plus one new share in a spin-off of Arrow's early-stage coal seam gas exploration assets in China, India, Vietnam and Indonesia.

The share is believed to have been valued within Arrow at about 55¢ a share.

Shell already owns a 30 per cent interest in Arrow's Australian coal seam gas acreage, but has concentrated on its own plans for a Curtis Island-based LNG project rather than join with Arrow at Fisherman's Landing.

Shell's Curtis Island project was awarded significant project status by the Queensland government last year, and Shell is carrying out an environmental impact statement for the project. By opting to bypass Fisherman's Landing in favour of Curtis Island, Shell would delay productio[n] by three years. The Shell-PetroChin[a] offer received a mixed reception fro[m] analysts yesterday, with most suggest[ing] an improved offer would probabl[y] be needed to win over Arrow despit[e] an apparent lack of obvious counte[r] bidders. CLSA analyst Di Brookma[n] said she believed the current bid wa[s] too low.

"We believe investors should accep[t] an offer no lower than $5.50 per share[;] any lower lets the assets go to[o] cheaply," Ms Brookman said.

Shares in Arrow slipped yesterday[,] closing down 9¢ to $5.02, while LN[G] Ltd – which traded as high as $1.9 last September – closed down 15.5 to 61.5¢.

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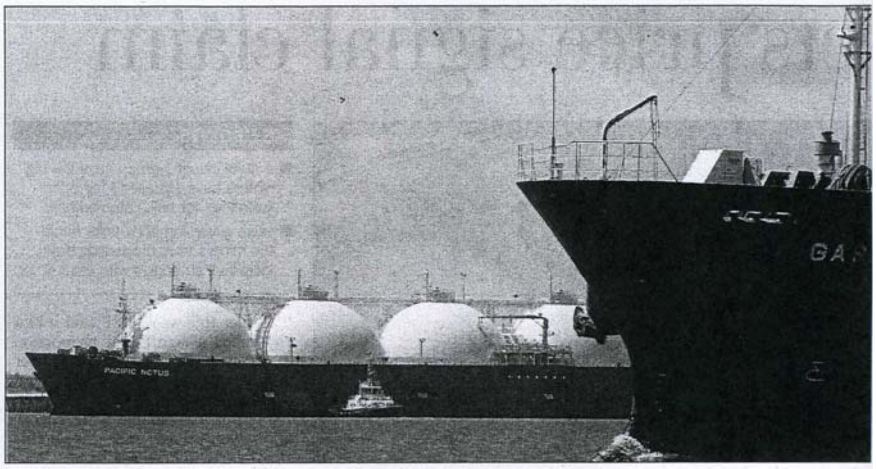

The bid could be the start of consolidation among companies planning coal seam gas-fed LNG plants. Photo: GLENN CAMPBEL[L]

BIGGEST SHAREHOLDER FEELING A LOT BIGGER

When New Hope Corp bought into Arrow Energy in 2006 at 58¢ a share, its rationale for the investment was clear: extending its energy investments beyond its coal business. But what started as a diversification exercise has turned into a blockbuster.

The quality of Arrow's assets and the weight of a joint Shell/PetroChina bid has catapulted the value of New Hope's 17 per cent stake in Arrow to more than $600 million from less than $50m four years ago. As Arrow's largest shareholder, it has also given the company a powerful role in determining the success of the offer.

Although coal-seam gas is an emerging technology, the buy-in to Arrow didn't require a big leap of faith for the coal miner's board.

New Hope had experience in mining coal tenements at the same Clarence-Moreton and Surat basins that Arrow has tapped for coal-seam gas. New Hope chairman Robert Millner told *The Australian Financial Review* yesterday the investment was a logical fit given the company's background in coal.

"We had this opportunity presented to us back in 2006 and obviously there is not a lot of difference between coal and gas in that they both generate power," he said. "We appreciated what methane gas would do going forward and we see demand for all these sorts of energies."

New Hope's 2006 acquisition of a 19.9 per cent stake and board representation in exchange for a $48 million outlay gave the company access to unconventional gas supplies several years before others in the industry saw its potential.

"We are still very confident in CSG going forward and the whole sector had a tremendous run and did not suffer in the economic downturn," Mr Millner said. "Anyone who goes to Asia can see that there is a need for this LNG going forward."

With $1.3 billion in the bank, the coal company is in no rush to cash in on its Arrow windfall.

"New Hope to Shell is a drop in the ocean but obviously at some stage we will talk to them [Shell]" he said. "For now we are happy to sit in and we have been told we should be sitting there."

Mr Millner is also chairman of investment vehicle Washington H Soul Pattinson, which owns 60 per cent of New Hope.

New Hope is confident of further diversification in the energy sector via its 20 per cent stake in geothermal explorer Planet Gas, along with plans to establish a coal-to-liquids operation at New Acland in Queensland to make synthetic fuel.

Perry Williams