



The full service spectrum

TOGY talks to

Angus WALKER

Director, Corporate Finance, Oil and Gas
PATERSONS SECURITIES

Australia's largest full service retail broker mixes oil and gas industry experience with a corporate finance capability that enables the firm to cover the spectrum of energy project transactions. Patersons' oil and gas team has a regional focus, advising clients throughout Australia and Asia-Pacific. ■

THE OIL & GAS YEAR: *What are the origins of Patersons Securities and how has it grown?*

ANGUS WALKER: The firm was established in 1903. We are the one of the largest full-service retail brokers in the country having recently acquired two other stock broking firms: Montague Securities and Tolhurst. We have offices in every state in Australia and in a number of regional locations as well, such as Gladstone in Queensland, to service coal seam gas activities.

TOGY: *What is the extent of Patersons' involvement in the country's oil and gas industry?*

AW: We combine true oil and gas industry experience with a corporate finance capability, which includes mergers and acquisitions, equity capital raising, debt capital raising and advisory services. We have a specific oil and gas analyst who is also drawn from the industry working in conjunction with a corporate finance team with experience in major international banks and funds. We can start at one end of the spectrum, identifying an opportunity and advising a company in relation to a particular transaction. If it is an acquisition the client may decide that they need debt and equity to effect the transaction. We can advise them and then go to the market and raise that capital for them either through the banks or through the equity capital markets here or internationally.

Our oil and gas business has a regional focus. We advise clients in Australia and in Asia-Pacific, and we have provided advice for a number of assets both nationally and internationally. The focus is regional both from an inbound perspective and also from the point of view of an Australian company dealing with acquisitions as well.

TOGY: *How has Australia's shift to a natural gas LNG market affected the way you serve your clients?*

AW: The market has changed dramatically in recent years. Finding gas was a disappointment for

oil companies not long ago, and now we find that we have international clients entering the Australian market to make acquisitions in natural and coal seam gas. We are advising more clients in relation to those acquisitions so it has changed things from a servicing perspective.

TOGY: *How prospective is Australia for international oil and gas investment?*

AW: From a natural gas and LNG perspective, Australia is globally relevant and has been for some years. The North West Shelf project is an example of that. Australia also has Darwin LNG and Pluto, and 12 more LNG projects are in the pipeline including the Gorgon Project, where there is around 40 trillion cubic feet (1.13 billion cubic metres) of gas and a development budget that has been estimated at A\$50 billion (\$37.4 billion). We are right on Asia's doorstep and Asia is the largest single LNG purchaser in the world. Demand is particularly strong Japan and Korea.

Politically, Australia is very stable and easily understood by an investment mindset. There is a history of transparency in the country's processes and it encourages and allows for foreign investment to come directly into the assets. Whereas in other countries where there may be a production sharing contract regime by which the host country retains all the title and the investor company effectively becomes a contractor, there is a concession process in Australia where the company acquires the right to explore the resources. This makes Australia a very attractive investment destination for international oil and gas companies.

TOGY: *Is Australia emerging as the energy leader in the Asia-Pacific region?*

AW: I think it is on its way to becoming that. At the moment there are still discoveries that have been made which are in the process of being commercialised, but once the Gorgon project starts, it is going to provide Australia with four major LNG

producing projects, which will take Australia higher up the world production scale. By the time that production comes through, we will probably be placed third globally in terms of LNG production, having previously been a lot further down the list only four years ago. The country has been able to put LNG trains online when the rest of the world has failed to deliver. This means Australia is becoming more and more relevant not just in the region, but also globally. Australian operators are becoming a global partner of choice.

TOGY: Australia has been relatively immune from the financial difficulties in other parts of the world. How has the oil and gas market here been affected?

AW: Australia hasn't been completely immune. We have been affected, but to a lesser extent than many other countries. The super-majors in Australia have a capital discipline approach learnt through past mistakes. Through careful planning they are able to allocate capital through the current financial turmoil. Having said that, the smaller part of the Australian market has struggled considerably to access equity and debt markets. Before the 2008/09 financial crisis, we had a lot of international banks that were specifically focused on oil and gas and substantial financing was coming into the country. Now debt is harder to get and more expensive and foreign investors and banks are pulling out. This is a function of the

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lower commodity price as well as the operations of the global financial markets. As a result some of the delays that we have seen in projects have been a matter of waiting to bring the cost down to make an investment decision.

TOGY: With a large number of exploration and production companies on the Australian Stock Exchange (ASX), how much consolidation is occurring?

AW: There are too many ASX-listed oil and gas companies, particularly in this environment. A lot of smaller companies have been starting up on the ASX but as the global financial market has been reducing the availability of equity and the amount of debt, these smaller companies have struggled to take their projects forward. Exploration in oil and gas is an extremely expensive, high-risk investment activity and not all companies will be able to make it through. That is why we have seen a number of companies continuing to go through the process of merging or being acquired, or even delisting in the worst cases.

If you look at the tail of distribution of ASX-listed oil and gas companies, starting from the biggest

like Woodside Energy going down to the smallest, there are few other jurisdictions in the world where there is such a long tail – there are many small oil and gas listed companies. This makes little sense, because they are effectively all going after a limited capital pool and looking for limited opportunities in a very competitive marketplace. Oil and gas exploration and production is a very expensive industry to operate in and having a limited capital base or few equity options can only make things more challenging. There are going to be a lot more mergers and acquisitions going on over the next six to 12 months for sure.

TOGY: How active is Patersons in coal seam gas?

AW: We provide advice in relation to the whole gamut: mergers, investments, capital raising and for the conventional oil and gas sector as well.

TOGY: How excited should investors be about the opportunities in coal seam gas?

AW: I think they should be exceptionally excited, which they have been. A lot of it has already been played out and there has been a huge amount of activity, with multi-billion-dollar international organisations coming in to the country and making investments. There has been much consolidation and I think at the project level there is going to be more consolidation. At the moment the players are adjusting strategies and positioning themselves for merger and acquisition activity. The first manoeuvre advantage can be critical.

I think there will be more acquisitions of Australian gas companies. Some of these foreign players are still looking for additional gas and some of that growth will be sourced via acquisitions. It is possible that some of these takeovers will be hostile while others will be made on a friendly basis, but there is certainly going to be more acquisition and merger activity in this space.

TOGY: What do you expect your corporate finance division to achieve over the next five years?

AW: We are the largest broker and have one of the largest corporate finance teams in Western Australia. In addition, we are focused on oil and gas, so we are at the right place with the right skills at the right time. I think that over the next five years we will continue to see a lot of foreign investment coming into the sector and we are well placed to provide advice and services to those inbound organisations. We will continue to see the Australian oil and gas companies going offshore and making international acquisitions, growing their businesses. We will be there to provide support.

I think the oil and gas focus that we have now will continue to grow over the next five years. There will be more people brought into the corporate finance team who have a deep understanding and focus on the oil and gas industry. The opportunities in this sector are simply too significant to overlook. Patersons Securities is in an ideal place to continue its connection and association with the industry and help both international and local participants develop Australia's resources. ■