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Shell, PetroChina Offer \$3 Billion for Australia's Arrow Energy
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By James Paton

March 8 (Bloomberg) -- Royal Dutch Shell Plc and PetroChina Co. made an offer worth more than A\$3.3 billion (\$3 billion) to acquire Arrow Energy Ltd., the holder of Australia's biggest coal-seam gas acreage, triggering a record gain in the shares.

Arrow investors would get A\$4.45 a share in cash, 28 percent more than the March 5 close, plus stock in a new company made up of Arrow's international business, Brisbane-based Arrow said today. Shell said separately that Arrow's overseas assets are excluded from the negotiations.

The offer values Arrow's proven and probable reserves at less than half of what BG Group Plc paid for Queensland Gas Co. in 2008, and a quarter of what Origin Energy Ltd. received from selling a stake in a venture to ConocoPhillips, RBS Morgans analyst Nik Burns said. Shell and PetroChina would gain supplies to feed liquefied natural gas plants to meet Asia demand.

"The market is telling you they want more," Robert Millner, chairman of Arrow shareholder New Hope Corp., said by phone today. Queensland-based New Hope, which owns almost 17 percent of Arrow, is "monitoring the situation to see how we'll proceed."

Arrow has agreed to acquire 100 percent of the A\$2.2 billion Fisherman's Landing project in Queensland, one of more than a dozen proposed LNG ventures in Australia aiming to tap rising demand for the cleaner-burning fuel. An increase in reserves along with a decline in the shares before today's announcement made Arrow a more attractive takeover candidate, Burns said.

Higher Bid

Arrow surged 47 percent in Sydney today, indicating investors may expect a higher offer.

"I wouldn't be surprised if ultimately a higher bid would have to be put on the table to ensure the deal got over the line," Burns said by phone from Melbourne today.

Arrow's international business is worth about A\$400 million, or 55 Australian cents a share, Burns said. That means Shell and PetroChina's A\$4.45-a-share offer for Arrow, excluding its international business, values the entire company at A\$5 a share, he said.

Arrow's board has recommended "shareholders take no action in relation to their Arrow shares," the company said. The explorer has named Citigroup and UBS AG as financial advisers and Mallesons as legal advisers.

The offer comes from a company jointly owned by Shell and PetroChina, according to Arrow's statement. PetroChina Chairman Jiang Jiemin today confirmed his company is joining the bid.

Takeover Speculation

Arrow said Aug. 13 that talks with companies about its coal-seam gas assets included discussions of a possible takeover, but that it hadn't received an offer. Speculation of an offer contributed to a 55 percent rise in Arrow's shares last year.

Shell, which has a 30 percent stake in Arrow's coal-seam gas holdings in Queensland and a 10 percent interest in its international unit, made a A\$3 billion offer for Arrow last year, with talks ending in stalemate, London's Sunday Telegraph reported in August.

Shell plans an LNG project on Curtis Island off the central Queensland coast that is expected to produce as much as 16 million metric tons of LNG a year and have four processing units, the company said in a document lodged last year with the state government. Arrow has said that its added reserves may help feed Shell's LNG venture.

BG Group

Today's offer values Arrow's proven and probable reserves at 88 Australian cents a gigajoule, Burns at RBS Morgans said. BG Group's Queensland Gas acquisition was valued at about A\$2.00 a gigajoule, while Origin's sale of a stake in its Gladstone project to ConocoPhillips was worth about A\$4 a gigajoule, said Burns, who predicted Feb. 12 that Shell may bid for Arrow.

Buying Arrow would give Shell gas to feed multiple LNG production units, Burns said. The possibility of Arrow selling a stake in Fisherman's Landing may have added to Shell's reasons for seeking a bid, he said.

Arrow said last month it's considering selling a stake and taking on debt or offering shares to help finance the Fisherman's Landing project.

"Arrow needs to raise significant funds, and that may require an equity sell-down, potentially introducing a third party that Shell may not have liked," Burns said.

Arrow's international unit is drilling in India, China, Indonesia and Vietnam, and Arrow aims to boost gas production tenfold by 2015. It may offer as much as 20 percent of that division in a share sale in the second half of 2010, Arrow said Feb. 17.

Queensland's government is expecting as much as A\$50 billion of investment in the state's coal-seam gas resources as companies including U.K.-based BG Group and ConocoPhillips vie to export the fuel to Asia.

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