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Potential alliances captivate market

While BHP Billiton and Rio Tinto have captured the headlines, there are some other intriguing possibilities among resource companies, writes **Stephen Wisenthal**.

Nobody knows the North-West Shelf project better than Woodside Petroleum.

So when one of its joint venture partners wants to put a piece of Australia's biggest energy project up for sale, Woodside is the natural buyer. That makes Woodside's $US399 million ($441 million) deal to buy Royal Dutch Shell's one-sixth stake in the project's oilfields this week unremarkable.

Shell is simply exiting its last Australian oil asset to focus on liquefied natural gas (LNG). Except Shell owns 34 per cent of Woodside and in 2001 failed in a bid to take control of the company because the federal government wouldn't allow it.

The minority Woodside stake is an exception within Shell.

The member of Shell's five-strong executive committee who has responsibility for Australia, Linda Cook, says it is an anomaly the company is happy with.

''Our strategy is all about growing the size of our upstream business, and we have a big focus on integrated gas and LNG,'' says Cook, who heads Shell's gas and power business. ''What Woodside are doing and how they're investing their money is completely aligned with that. So while it may be unusual, it's a good strategic fit for us, and it increases our exposure to Asia-Pacific LNG markets.''

Of course, Shell isn't the only company that sees Woodside as a good strategic fit. BHP Billiton's petroleum division is also a one-sixth owner of the North-West Shelf project.

BHP Billiton is one of the few companies left that combines a substantial oil company under the same roof as a metals and minerals producer. But its determination to keep petroleum may weaken as a result of its $165 billion pursuit of Rio Tinto, and many analysts expect it to spin it off or sell it to create value if the mining merger falls through.

Investment bankers salivate at the prospect of a three-way deal, also involving Shell's Australian assets, but that may be less likely.

Cook's comment on Woodside shows that relations with its biggest shareholder have thawed from the frosty entente that followed the spirited takeover defence the Australian company mounted in 2001.

There have been other subtle shifts.

Shell Australia chairman Russell Caplan resigned from Woodside's board in October, as his company's expanding activities in Australia put him in more situations of potential conflict of interest.

Shell is a participant in all of Woodside's LNG projects, except the $12 billion Pluto development.

But Shell is also working to secure big stakes in other Browse Basin LNG prospects through drilling, and through two joint ventures with ambitious explorer Nexus Energy.

Goldman Sachs JBWere analyst Anthony Bishop says these separate activities may mean Shell's 34 per cent stake in Woodside is becoming less strategically important.

''The transaction [to sell North-West Shelf oil] reinforces our view that there is only a low probability in the near future of Shell making an offer for Woodside,'' he says.

''Why vend assets into a company that you intend to bid for?''

Bishop says there is the possibility for a perception of stock overhang that could dampen Woodside's share price performance.

One way to reduce such an overhang would be a merger between Woodside and BHP Petroleum, which diluted Shell down to less than half its 34 per cent stake in Woodside.

It is less clear Shell would want to revive its strategy from the beginning of the decade of folding its Australian assets into such a venture.