Bloomberg.com

Woodside Says High Oil Prices Helping Fund Pluto LNG (Update2)

By Angela Macdonald-Smith

May 2 (Bloomberg) -- Woodside Petroleum Ltd., Australia's second-biggest oil and gas producer, said gains from rising crude-oil prices are helping the company fund its Pluto liquefied natural gas project with less debt than planned.

Woodside still expects to borrow some funds to finance the A$12 billion ($11.3 billion) project, either through banks or the bond market, Chief Financial Officer Mark Chatterji said in an interview. He declined to say when the company, 34 percent owned by Royal Dutch Shell Plc, may sell bonds.

Woodside said in February it will boost capital investments by more than 50 percent this year to in excess of A$5 billion, including about A$3.3 billion to be spent on Pluto in Western Australia, which will more than double its LNG output. Crude-oil prices have jumped about 46 percent in New York since Perth- based Woodside approved Pluto for development on July 27.

``Those high oil prices are continuing, so in general the funding picture is a good news story relative to where we thought we would have to be at this point when we'' approved the project for development, Chatterji said yesterday in Perth.

Woodside gained 11 cents, or 0.2 percent, to A$57.00 in Sydney trading, lagging behind a 1.2 percent advance in the benchmark energy index.

Low Debt

``Woodside at the moment has a very low level of debt and strong coverage ratios because of the high oil prices and of course the revenues they get from their LNG business are quite stable,'' said Brisbane-based Janet Willoughby, associate director of Fitch Ratings' Asia-Pacific energy and utilities team. ``They could raise more debt and probably still retain their ratings.''

Woodside is rated BBB+ by Fitch.

The company hasn't altered its thinking on accessing debt markets because of the tightening in credit caused by the subprime crisis, Chatterji said. Record commodity prices have meant the perceived credit risk of energy companies hasn't been much affected, he said. Free cash flow from Woodside's operations enables it not to have to consider hedging some production, he said.

``Where you sit today and even if you sit at oil prices substantially less than today, you couldn't see a case for having to do anything but the normal issuance of debt, free cash flow and then again potentially some equity in the form of the dividend reinvestment program'' to finance Pluto, Chatterji said.

Cost Increases

Chief Executive Officer Don Voelte said yesterday he aimed to approve an expansion of Pluto by next year, and two more LNG projects at Browse and Sunrise by the end of 2010, amid rising demand from Asian utilities for cleaner fuels for power generation. Woodside's expenditure may be about A$4.8 billion next year, Citigroup Inc. said in an April 17 report.

Chairman Michael Chaney yesterday cited scarcity of labor and rising costs of materials as the biggest threats to the company's growth and profitability.

``You can't overestimate the difficulty of working in the current environment,'' Chaney told shareholders at the annual general meeting in Perth.

There's no sign of the cost increases abating, Chatterji said.

``We still see pressures across the board in terms of costs and that is a reality of the constraints we have here in Australia,'' Chatterji said. Woodside's cost estimate for Pluto allowed for a ``reasonably healthy estimate'' on cost escalation and the reality has so far matched those projections, he said.

`Weakened Profile'

Woodside will have a ``weakened financial profile'' while developing new projects, which will likely require ``significant incremental debt,'' Moody's Investors Service said Feb. 27.

``The large capex program highlights the need for Woodside to demonstrate ongoing success in delivering its large projects, particularly given the escalating costs experienced by the industry worldwide,'' Moody's said.

Woodside's financial profile is ``actually quite strong,'' having ended last year with 15 percent gearing, the ratio between debt and debt-plus-equity, Chatterji said.

Woodside last month reported a 22 percent jump in first- quarter sales as the effect of higher crude prices outweighed a decline in output. The company yesterday retained a full-year forecast that output will increase to between 80 million and 86 million barrels of oil equivalent as new projects start up, from 71 million last year.

To contact the reporter on this story: Angela Macdonald-Smith through the Sydney newsroom at amacdonaldsm@bloomberg.net

Last Updated: May 2, 2008 03:31 EDT