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Oil and gas giant feels the pain of the high cost of money

As the oil price falls, so too the prospect of a Woodside Petroleum capital raising increases.

In short, as oil trades around $US57 a barrel, down 60 per cent on four months ago, the Perth-based oil and gas giant may have to consider deferring major capital expenditure on projects such as Sunrise, Bowse and Pluto or raising new equity to keep its project pipeline on track.

It's not about Woodside being overgeared, even though to stick to its spending program and keep gearing at less than 50 per cent, at a minimum it would need to underwrite the next three dividend reinvestment plans.

Rather it's about the cost and availability of debt.

Remember that fertiliser group Incitec Pivot had interest cover of over eight times but still couldn't access the US private placement market so had to raise over $1 billion at an extremely dilutive price in a rights issue last week.

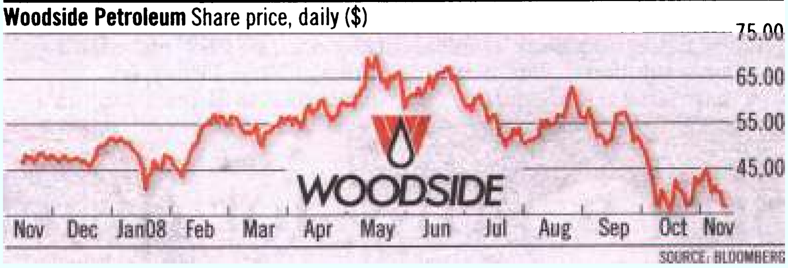
Woodside has an A- credit rating and $US1.05 billion ($1.6 billion) in undrawn facilities. But it told analysts the cost of funds was 4.5 percentage points more than Treasury bills, compared with 2 percentage points this time last year. Ouch.

So Street Talk would not be shocked if Woodside chose to bite the bullet and conduct a rights issue (a placement would presumably be out, given Royal Dutch Shell's 34 per cent stake).

And as noted elsewhere in this column, Woodside is also a shortlisted party for the sale of $1 billion-plus Timor Sea project owner Coogee Resources, albeit not the frontrunner. If it bought Coogee, a capital raising would then be a certainty.

Capital idea

Woodside Petroleum Share price, daily ($)



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