ASX Announcement

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REDUCTION OF SHELL'S SHAREHOLDING - TELECONFERENCE

On Tuesday, 17 June 2014 at 9.00am AWST Woodside hosted a teleconference regarding the reduction of Shell's Shareholding with Woodside as announced to the ASX this morning.

The transcript of the teleconference is attached.

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Event Transcript

Company: Woodside Petroleum Ltd
Title: Reduction of Shell's Shareholding
Date: 17 June 2014
Time:
Conference ID:

Start of Transcript

Operator: Thank you for standing by, and welcome to the Reduction of Shell's Shareholding and Woodside conference call.

At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask to ask a question you will need to press the star key followed by the number one on your phone. I must advise you this conference is being recorded. Today is 17June 2014.

I would now like to hand the conference over to your first speaker today, Mr Michael Chaney, Woodside Chairman. Please go ahead.

Michael Chaney: Well good morning everyone and thank you very much for dialling in this morning. I'm joined on this teleconference by our CEO and Managing Director Peter Coleman, who will talk to us in a moment.

As you will have seen already I think, we announced this morning that Woodside has entered into an agreement with Shell, to reduce Shell's interest in our company from approximately 23% at present, to a maximum of 4.5%.

This is a pretty significant development in Woodside's long term relationship with Shell, and really it begins a new chapter for our company. The purpose of this morning's call of course is to give you an overview of the transaction and what it means for Woodside and its shareholders, and we'd be very pleased to take your questions after we have provided an introduction.

The combined transaction is going to be implemented through a binding buy-back agreement to purchase 78.3 million Woodside shares from Shell via a selective buy-back at a total price of about US$2.7 billion. That amounts to about 9.5% of Woodside's issued share capital.

Shell has also made a commitment to sell another 78.3 million shares, representing 9.5% of our capital again, via an underwritten sell-down to institutional investors.

Dr Haynes and Dr Jamieson, two of our directors, have abstained from voting in relation to this proposal as they were each originally nominated to the Board by Shell. We have, as you will have seen in our annual reports, determined that both of those gentlemen are independent directors, but on this occasion really for good form, they have abstained from voting.

The remaining directors unanimously recommend that shareholders vote in favour of the proposal, subject to a favourable conclusion from the independent expert, because we see material benefits for all Woodside shareholders.

Consistent with our commitment to maximise shareholder returns, the transaction will optimise the company's capital structure, it will deliver increases in earnings per share, and cash flow per share, and dividends per share. Importantly, it will resolve the uncertainty regarding Shell's shareholding.

The sell-down is taking place today and is expected to be completed by tomorrow, at which time Woodside shares will recommence trading.

Now the selected buy-back is subject, as you will see, to Woodside shareholders approving the transaction at an EGM, and an independent expert concluding that the buy-back is fair and reasonable to non-Shell Woodside shareholders. Subject to the conclusion of the independent expert, the Woodside Board, other than those directors originally nominated by Shell - will recommend to shareholders that they vote in favour of the buy-back.

So with that brief overview, I'll now hand over to Peter Coleman to run through the transaction in some more detail.

Peter Coleman: Well thank you Michael, and good morning everybody. I'm on slide four - selective buy-back. As Michael mentioned, this morning we signed a binding buy-back agreement with Shell, under which Woodside will purchase approximately US$2,680 million of Woodside shares from Shell, equating to around 9.5% of our shares outstanding.

This is a significant capital management initiative, as you no doubt understand, and one that we believe delivers material benefits to all Woodside shareholders.

The selective buy-back is based on a share price of AUD$36.49, which represents a discount of 14% to the five day volume weighted average price up to close of trading yesterday, and is converted to US dollars using the exchange rate over a similar period.

The price will comprise a fully franked dividend component and a capital component. We're funding the selective buy-back using our significant cash reserves and taking advantage of our access to low cost debt capital. Completion of the buy-back will require approval by Woodside shareholders being 75% of shareholders present and voting either in person or by proxy, excluding Shell. It's also subject to an independent expert concluding that the buy-back is fair and reasonable to non-Shell Woodside shareholders and obtaining consents under some of our facility agreements.

Moving to slide five, at the same time Shell is committed to sell a further 9.5% of Woodside shares via an underwritten institutional sell-down $41.35 per share. After completion of this combined transaction Shell's residual shareholding in Woodside will reduce to a maximum of 4.5%.

Looking at slide six, this transaction delivers a number of material benefits to Woodside shareholders. Firstly it creates a more efficient capital structure. Our strong cash flows have given us substantial capacity to consider capital management initiatives as reflected in our dividend payout ratio of 80% and special dividend we paid last year.

The transaction will bring Woodside's gearing into line with the company's long term target range, and importantly the buy-back is not at the expense of our existing growth plans, and will not impact our dividend policy. The buy-back is not expected to impact Woodside's current credit rating, and Woodside will continue to target a strong investment grade credit rating.

Secondly, the selective buy-back will be materially accretive to earnings per share, and cash flow per share, and will have flow on benefits to dividends per share, starting from this year's interim dividend. This provides a long term sustainable benefit for all of our shareholders.

Thirdly, the transaction facilitates an orderly reduction in Shell's interest. Shell has publically indicated that it no longer views its stake in Woodside as strategic and may consider further divestment. The combined sell-down and selective buy-back will resolve the uncertainty associated with Shell's ongoing shareholding.

As Michael said earlier the Board considers that the transaction is in the best interest of shareholders and recommends that shareholders vote in favour of the buy-back, subject to the conclusion of the independent expert. I want to emphasise to you all that before Woodside’s senior management team decided to go down this path. We carefully considered the full range of capital management initiatives available to us. From changing our dividend payout ratio to paying a special dividend and other forms of share buy-back.

We're confident that the range of benefits provided to all shareholders through this transaction is superior to the other options. For example, neither an on-market buy-back or equal access off market buy-back would provide the same certainty of price and quantum as the selected buy-back. An on-market buy-back would take considerably longer to implement. The selective buy-back enhances earnings per share and cash flow per share which would not be provided if we were to declare another special dividend.

Finally, the combined transaction is the only initiative that facilitates an orderly reduction in Shell's stake in Woodside.

Slide seven, I'll now provide more details on the financial impact of the transaction, and I'll note that these are based on our historical 2013 results.

On a historical 2013 pro-forma basis, the buy-back would be accretive to earnings per share by approximately 6%. This is driven by optimising our gearing through use of our cash reserves and low cost debt funding and the attractive buy-back price, which is a 14% discount to the five day volume weighted average trading price of Woodside shares up to and including 16 June 2014.

The earnings per share accretion will flow through to increased dividends per share, given the Board’s intention to maintain our current dividend practice following the transaction. In addition the buy-back will be accretive to cash flow per share by approximately 8% on an historical 2013 pro-forma basis.

Slide eight, the buy-back will provide Woodside with a more efficient balance sheet, with our gearing increasing to be in line with our stated long term range. However, we will still retain a strong balance sheet and financial flexibility following the buy-back.

As I mentioned earlier, we don't expect the buy-back to impact our credit rating and we will still be in a strong position to continue to execute our growth strategy. We intend to maintain our dividend practice of an 80% payout ratio for the foreseeable future, subject to the demands of significant new capital expenditure - or if business performance or external circumstances change materially.

While the buy-back will result in a decrease in our franking credit balance, we will retain a large balance of surplus franking credits and continue to generate franking credits as an Australian tax payer. This will enable us to continue to pay fully franked dividends and provide the flexibility to consider other capital management initiatives in the future.

Slide nine, as you can see from slide nine, Woodside will resume trading following the completion of the institutional sell-down by Shell which we expect to occur tomorrow. In the coming weeks the shareholders will receive the notice of meeting and an explanatory statement with full details of the buy-back. A shareholder meeting will be held in early August with payment and cancellation of the repurchased shares to occur shortly after the meeting.

So that's an overview of the transaction, I'd like to conclude by re-emphasising, the Woodside board believes the transaction is a very good outcome, that delivers a number of benefits for all of our shareholders. It reflects the management teams disciplined approach to capital allocation decisions and our continuing commitment to driving strong shareholder returns. Thank you very much and we'll now open the line to questions.

Operator: Thank you, at this time if you wish to ask a question please press star one on your phone and wait for your name to be announced, if you wish to cancel your request press star two. The first question comes from Dale Koenders with Citigroup, please go ahead.

Dale Koenders: (Citigroup, Analyst) Hi gentleman, firstly congratulations on a great outcome for investors. I was just wondering quickly, when you look at the flexibility remaining in the balance sheet, does this mean that M&A of potentially development ready opportunities is less of a focus in the near term?

Peter Coleman: Yeah thanks Dale, no the short answer to that is no it's not less of a focus at all. We're in a very fortunate position where when you look at sources of cash, they're very strong at present. With all prices remaining strong of course, we can see that moving into the foreseeable future. Our uses of cash are really at a low and continue to be that way, we believe for some time, as we start to rebuild the portfolio and our new growth projects start to move through.

So what does that mean? It says we really have quite a deal of flexibility in the - over the coming period however long that needs to be, to continue looking at both organic and inorganic opportunities.

Michael Chaney: It's worth noting I think Peter that you mentioned in slide eight, that on a pro-forma basis our gearing go to 25% around our target. But by the end of December we anticipate gearing will be below 20% again, and actually would never publish a 25% figure.

Peter Coleman: The figures in the pack are based on 2013, as you can imagine our gearing at the moment has continued to decrease during 2014. We originally planned for a Leviathan transaction this year, we've got a bit more flexibility with that now, with Leviathan not proceeding. So as Michael just mentioned we expect to end up 2014 you know in again a very strong gearing position on the balance sheet.

Dale Koenders: (Citigroup, Analyst) Okay and then just one other quick question. In terms of the decision between the selective buy-back and Leviathan or other growth opportunities. Does this buy-back still meet the - I guess the investment metrics that you set out at the strategy day recently, in terms of VIR of 25%?

Peter Coleman: Yeah it's a little hard to do a VIR on a buy-back, but certainly as we looked at the options, and I'd say right up front. This was not an either or situation for us, it wasn't that we chose one over the other. It was just simply as one dropped off the list, it gave us more capacity to pursue this particular option. But this was an option that we'd had in our sites for some period of time, as something we felt would benefit our shareholders if there was an opportunity presented itself.

Dale Koenders: (Citigroup, Analyst) Okay very good thanks.

Peter Coleman: Thanks Dale.

Operator: Thank you, the next question comes from Hugh Morgan with Deutsche Bank, please go ahead.

Hugh Morgan: (Deutsche Bank, Analyst) Oh good morning Michael, good morning Peter, thanks for the opportunity to ask some questions. A couple from me. The first one I guess clearly it's a material reduction in Shell stake, but it's not a 100% exit. Are you able to perhaps take us through specifically whether it was Woodside driven in terms of maybe the balance sheet capacity and or the willingness to reduce - to a certain level the franking credits that limited perhaps seeking to fully remove Shell from your register?

Peter Coleman: Yeah look Hugh, these things are obviously negotiated outcomes at the end of the day. I mean there's a couple of boundary conditions on it. One of those conditions is really how much Woodside could share in this, and you know the 9.5% we felt was an appropriate number for us to limit ourselves to.

The other part to it is we were keen to see a transaction that took Shell below 5% on our register, it means they're not a material shareholder on the register anymore. Of course some of the obligations that go with that are now no longer current. So we just thought from the point of view of a symbolic or a material number, we thought anything below 5% would be seen by the market as positive. Then would allow Shell an orderly exit over time if they wished to liquidate that position.

Hugh Morgan: (Deutsche Bank, Analyst) Great okay and look my second question probably follows on from that point, and probably more for you Michael. Just in terms of you mentioned that there's two directors currently on the board who were nominated by Shell. Are there some potential implications for the makeup of the board if these transactions do proceed?

Michael Chaney: I've told both of those directors that when we started thinking about this transaction, that if it proceeded, I'd be very keen to keep them on the board. Not as Shell nominees obviously but just as independent directors. You know both of them have very deep technical experience, both of them have run the North West Shelf Project in their working lives. They bring a wealth of international oil and gas experience, which is not easy to find, so we expect to maintain their membership. Andrew Jamieson will be the first to go, his final term is - I think he's in it now, so that within a few years he'll be retiring. But certainly Chris Haynes I would hope would stay on the board for quite some time.

Hugh Morgan: (Deutsche Bank, Analyst) Great, appreciate the answer that's all from me thank you.

Operator: Thank you, the next question comes from Adam Martin with Morgan Stanley, please go ahead.

Adam Martin: (Morgan Stanley, Analyst) Oh morning gentleman, Stewart Baker and Adam Martin here. Just a question that's been addressed before and just repackaged by me a little bit. Which is the residual holding of Shell there 4.5%, I'm just wondering why Woodside didn't go a little bit further in this strategy and attempt to buy that balance as well, and so remove that overhang completely. Given the obvious benefits of the 9.5% board from a financial point of view, enhance that even further given the very low cost of debt and your cash flow generating abilities. Just wondering why you didn't buy the balance of the stock if it were made available?

Peter Coleman: Lawrie, there was at one stage we were talking about a corporate corporations law limit here, the old 19.9% limit, and that was a factor. You start to get into the complications of that limit. But I think Peter's answered the question pretty fully that we looked at what we felt was the sensible capacity of our own balance sheet and also what the market could absorb in terms of the placement and that's where we came to.

Adam Martin: (Morgan Stanley, Analyst) Okay thanks very much.

Operator: Thank you. The next question comes from Mark Samter with Credit Suisse. Please go ahead.

Mark Samter: (Credit Suisse, Analyst) Yes good morning guys. First question if I can - have you made a definitive decision on what you're going to do with the stock if you're going to cancel it or hold it at treasury? Obviously Peter you're old employer Exxon has over $200 billion of un-cancelled treasury stocks sitting on its balance sheet which is theoretically there available as a tool as a funding source and potentially without shareholder approval. Have you reached a decision on what you're going to do with the stock?

Peter Coleman: Yes Mark we've always made a commitment that we'll be very transparent with our shareholders and we're very happy to go back to them if we need to issue more equity. So our plan here is to cancel those shares.

Mark Samter: (Credit Suisse, Analyst) Then just one other question - has there been any other concurrent negotiations with Shell? Is there anything around - deals around Browse or any other technical agreements that might have been signed concurrently with this deal or it's an entirely independent deal with no other transactions with Shell during the same process?

Peter Coleman: Yes look the short answer is no there's nothing else. I will say over recent times we've had dialogue with Shell over the last couple of years around options. We did look at potential options with respect to assets and so forth and you always get into a difficult situation as to valuations and really who values it at what we think would be a full market value. So I would say some time ago we decided that that was probably not a path that was going to be beneficial to either of us. We just didn't have enough of a portfolio that made sense within that particular regard.

So with respect to the technology agreements and so forth we've just renewed our technology services agreement with Shell. We've also been looking for some period of time at moving some of the other agreements that we have with Shell. Of course there'll be discussions around insurance and coverage and so forth but the guys are managing that as a normal part of our business.

Mark Samter: (Credit Suisse, Analyst) Okay brilliant. Thank you.

Operator: Thank you. The next question comes from Nik Burns with UBS. Please go ahead.

Nik Burns: (UBS, Analyst) Yes thank you very much - just a couple of questions. Look the first one I think I know what the answer is going to be but I'll ask it anyway. Look historically Shell has had a major influence on Woodside's operations. There were a lot of Shell people working inside Woodside and I was just wondering in terms of what the current state of play is there and just as they reduce their equity ownership in Woodside whether there'll be any impact at all at the operational level or at the personnel level inside Woodside?

Peter Coleman: Yes look first thing Nik we have less than 10 Shell employees currently seconded to Woodside so with respect to the agreement that's not going to be a material issue one way or the other. We would expect those employees to remain seconded and they come in through the joint venture arrangements that we have so there should be no change there.

One of the more interesting relationships we have with Shell is obviously sharing operating performance data on our North West Shelf project and we look forward to continuing to work with Shell and being able to benchmark ourselves on a global basis. So I don't see that there will be any change in that at all. There may be some agreements that we need to sign around confidentiality but the point being we're already operator at those assets. It's an unincorporated joint venture which Shell is already a part of and so I don't see any change in that relationship.

Nik Burns: (UBS, Analyst) Okay great. Look and in the event that shareholders decide to vote down the selective buy-back in early August, would you move to consider another form of capital management?

Peter Coleman: Such a negative thought. We think this is a seriously this is a compelling offer to our shareholders. Clearly they'll need to make their own choices in that regard. Look in the very unfortunate event that it did get voted down and I just can't see the circumstances in which it would but I'll go with your question, we'd have a look at our capital management plans then. But I'd say that it would take some time for us to reconsider what we would do.

Nik Burns: (UBS, Analyst) Great, thank you.

Operator: Thank you. The next question comes from James Paton with Bloomberg. Please go ahead.

James Paton: (Bloomberg, Analyst) Hi good morning. I think most of my questions have been asked at this point but you said the M&A plans - your M&A plans or investment plans wouldn't be affected by this transaction. Can you say whether you're getting any closer to doing any deals - any further deals to expand overseas?

Peter Coleman: James one of the things we've had to do with this particular deal is sign a warranty that we're not aware of any material transactions being progressed at this point in time. So as you're probably aware we're under an enhanced disclosure requirement now. So I can unequivocally say we don't have anything at this point that's moving forward that would be material and would affect the way our shareholders would view this particular deal.

Having said that, we do have a number of ongoing discussions that are still in their infancy in that regard. So we haven't slowed down - to maybe answer the question a different way - we haven't slowed down our business either in exploration or through our M&A pursuits one bit at all through this. So the message is very clear that we are generating a lot of free cash. We need to and are committed to growing the business and we're continuing to pursue all of those opportunities. So this doesn't in any way affect we believe our capacity to pursue any of those or complete a transaction if one was attracted.

James Paton: (Bloomberg, Analyst) Okay thanks Peter.

Operator: Thank you. The next question comes from Peta Arnott with Merrill Lynch. Please go ahead.

Peta Arnott: (Bank of America Merrill Lynch, Analyst) Hi, just a quick question. Are you able to share Shell's entry price? Is that what drives the capital component level of $7.95 per share?

Peter Coleman: Peta I'm getting a lot of shakes of heads around the table. So I'm not sure that we are able to actually share the entry price at all. That's something you probably should ask Shell. So the short answer to that I'm sorry is no I can't share it.

Peta Arnott: (Bank of America Merrill Lynch, Analyst) Right. Okay so put another way, I guess when you look at it with that split there's a little bit of value leaving with the fully franked dividend component. So it's quite tax effective obviously for Shell - is that the only way that you could structure this?

Peter Coleman: Yes look it's a good question. It comes again down to the full structure of the deal. You know as you look at each component we can kind of cherry pick each one and say well should it have been fully franked or partially franked and then was the price the right one? The other thing I'd point to is say we did go to the maximum of the discount available under the ASX rules. So there's a 14% discount applied to this over the pricingperiod.

So all of that was factored in when we were looking at the deal space here as well as ensuring that Shell had a commitment themselves to selling down a very substantial part of the remaining shareholding. So it was one of those things where we look at each of those components and we say what's a good package and each one has got a little bit of compromise but I wouldn't walk away from the fact that we were able to attain the maximum discount available under the law.

Peta Arnott: (Bank of America Merrill Lynch, Analyst) Okay thanks.

Operator: Thank you. The next question comes from Don Hamson with Plato Assets Management. Please go ahead.

Don Hamson: (Plato Assets Management, Analyst) Yes my question is why didn't you consider conducting a normal buy-back which is not selective because a selective buy-back favours one shareholder over all others and I know that our $1 billion worth of pension investors would get a lot of value out of a fully franked buy-back. So my estimate is it would be worth about 13% more than the current share price which is significantly more than the EPS accretion of the deal.

Lawrie Tremaine: Hi Don. This is Lawrie Tremaine - I'm going to take this question on. Look we went through a process of working through each of our capital management option and ultimately held the view that clearly a selective buy-back and dealing with the Shell overhang issue was a priority for us. In relation to an equal access buy-back there are a couple of factors in relation to that that I'd like you to consider. The first is that there's a great deal of uncertainty around that transaction particularly as it relates to Shell.

We don't know whether Shell would participate or not. In the event that they chose not to participate then the Shell ownership - equity ownership would go up. In the event that they did participate and through the full weight of all of their shares into the buy-back then our estimate is that they would take some 65% of the total proceeds of the buy-back. So those two factors - the uncertainty and also the fact that Shell would share in most of the buy-back was a factor in our decision making.

Don Hamson: (Plato Assets Management, Analyst) Well I'm sure if they didn't participate my clients would be happy to take more.

Peter Coleman: Yes I mean you do nothing about the overhang issue and if they did participate they'd end up with a smaller shareholding which in a sense would exacerbate the overhang issue I think and it was...

Don Hamson: (Plato Assets Management, Analyst) Yes.

Peter Coleman: ...that whole issue of uncertainty that I think would have been against the interests of the shareholders and actually against the health of the share price.

Don Hamson: (Plato Assets Management, Analyst) I mean I'm just wondering whether there was some way you could have structured it such that other shareholders had the chance to bid for this and essentially the shares would be bought-back but they would cancel out shares from Shell or something. I'm sure there might have been a way to try and structure it so that particularly low tax Australian investors to get the most advantage out of franking could actually well get the most advantage out of that franking because unless I'm wrong all the calculations I've ever done show the pension phase and charity investors get the most value out of any structured buy-back.

Peter Coleman: Yes Don I think as we've spoken to shareholders over the last three years we've spoken to them about this issue and the fact of the matter is it is dependent on the particular capital base of shareholders and its dependent on the tax situation of individual shareholders. So there's no one answer that fits all and so knowing that we had to make a decision and have made the decision to go down this route.

Don Hamson: (Plato Assets Management, Analyst) Okay.

Operator: Thank you. The next question comes from Angela Macdonald-Smith with the Australian Financial Review. Please go ahead.

Angela Macdonald-Smith: (Australian Financial Review, Analyst) Hi, yes there's just some speculation around that Shell sell-down might make - would cite itself vulnerable to a takeover. I just wondered what you could say about that?

Peter Coleman: Yes, let me answer to that one Angela. I think the way I'd reflect is this is a natural transition for Woodside in the evolution of the company or the maturing of the company. It's the first time in many, many years that we've not had a substantial shareholder on our register and so now we look very much like most of our peers in the marketplace. I think that's a really good thing. The market will be able to fully value us, we'll get full value on our ASX listing with respect to our weighting on the index as well. So there's a number of things that are positive.

With respect to takeovers and so forth, it's not really appropriate for me to comment on that. You might want to talk to people who are thinking of doing that. What I would say to you is there's always an argument for and against that, Angela. Some people have felt over time that if you are able to purchase the Shell block itself, that would be a good segue for somebody to come in. Others have thought that a free register is the better way. That really doesn't occupy our mind, to be honest. We think the best way for Woodside is to ensure that we perform the very best we can and really that's what we think about. We're certainly not thinking about setting the Company up for a takeover in any form at all.

Angela Macdonald-Smith: (Australian Financial Review, Analyst) Thanks.

Operator: Thank you. The next question comes from Paul Phillips with Perennial Investment Partners. Please go ahead.

Paul Phillips: (Perennial Investment Partners, Analyst) Hi guys, thanks for the call. Just one quick question. Is there any - besides the shareholder vote, are there any other hurdles that need to be sort of crossed for this to go ahead? I suppose I'm specifically thinking about maybe the ATO or something like that. Do you have like approval from the ATO?

Peter Coleman: Paul we - yes, we have a final tax ruling from the ATO. So therefore the only other condition that needs to be satisfied is a number of lender consents which we believe will be obtained in the next week or so.

Michael Chaney: And an independent expert report.

Peter Coleman: Right so, yes.

Paul Phillips: (Perennial Investment Partners, Analyst) Right. Okay, that's perfect. Thanks for that guys.

Operator: Thank you. Mr Chaney, there are no further questions at this time.

Michael Chaney: Okay well thank you very much. On behalf of Peter and myself, we appreciate your attendance on this conference call this morning. As we said at the outset, we think this is a very good move for the Company and for the Company's shareholders and we are particularly pleased that we have the ballot sheet capacity to do this without affecting our growth opportunities as we go forward. We work on the basis that capital is very valuable and if we have an excess of it in the balance sheet, we have an obligation to look at ways of rewarding our shareholders and we think this rewards them in a number of ways that we've described.

Thanks very much for your attendance.

Operator: That does conclude our conference for today. Thank you for your attendance. You may now disconnect your line.

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