Beach buoyed: big investments ahead

VALERINA CHANGARATHIL

Armed with a robust balance sheet, the boss of SA's second-largest oil and gas producer reveals the company's future plans. VALERINA CHANGARATHIL reports

THE Adelaide-born chief executive and managing director of the state's second-largest oil and gas production business is a betting man, albeit a safe one.

Following a stellar 190 per cent jump in full-year profit to $577 million, he is leading ASX top 100 company Beach Energy towards an ambitious five-year production plan involving billions in investment.

But it will come with a firm eye on high returns at low cost for the business that employs 500 staff, Matt Kay tells The Advertiser.

"For us, we're not going to go out and try the one-in-15 or one-in-20 options," he says.

"If someone else makes those work, you'll probably find that we'll be a really fast follower. We like bets that are the one-in-two, one-in-three type bets."

It's a strategy that helped put the company – established in 1961 – on a growth trajectory when its peers were struggling in a volatile oil environment in 2016.

In May that year, Mr Kay left Oil Search to return home to Adelaide after 15 years – with his wife and three children under 14 – to join Beach Energy. It had just merged with fellow Australian sharemarket-listed company Drillsearch Energy, pushing its market capitalisation to more than $1 billion.

"At the time, in a $40 oil environment, we were basically in a net-cash position generating free cash flow, so we had a chance to grow when many of our peers were suffering with their balance sheets at the time of the downturn," Mr Kay says.

"We had all of our eggs in one basket, historically, in the Cooper Basin and what we wanted to do was to have more diversification."

In January last year, Beach Energy acquired Lattice Energy for $1.6 billion.

"We are now in five basins across Australia and New Zealand, have onshore capabilities, offshore capabilities, and genuine large gas-processing capabilities."

Beach Energy now directly controls two-thirds of its production and has a large gas business, contributing 15 per cent to the east coast gas market.

“What that means is we now have a revenue stream from a gas business that covers all of our company’s operating costs,” Mr Kay says.

An additional $1.5 billion will be invested over five years, starting this financial year, as it boosts production from 29.4 million barrels of oil equivalent to between 34 million and 40 million barrels.

“We are about $5 billion market cap so we do have the capacity, if we choose, to do more mergers and acquisitions,” Mr Kay says, adding that the “whole of Australia, where possible” is a focus area for the business.

“At the moment, we have a lot of reinvestment going into the Cooper Basin, so we are virtually doubling our well count on the Western Flank in the coming year.”

Beach Energy is also reinvesting with long-time partner Santos in the Cooper Basin JV and is about to start “a very large investment cycle” in the Otway Basin, in Victoria.

“That’s a significant investment, all targeting the east coast gas thematic,” he says.

“From our perspective, we think the solution for eastcoast gas is to get more gas into the market and we are a primary driver for that.” The high-price energy market has divided politicians and communities but Mr Kay says the answer lies in the “fundamental economics of supply and demand”. “So, our belief is more supply is the answer, which is why we’re trying to get more gas into the market, both through (our) Cooper Basin facilities and also through the Otway Basin,” he says. “We would also like to see Victoria open up more onshore. Also, we’d like to see NSW open more, obviously with stringent regulations, as there should be.” As with other major oil and gas producers in recent years, Beach Energy has also been spending a lot of time with regulators and politicians. “We have great support, frankly within Australia, particularly on the east coast, for what we’re doing because we’re spending, with our partners, around $1 billion over the next two years to get more gas into the market,” Mr Kay says. Part of this investment, supported by a $6 million grant from the Federal Government, is going in to build a sizeable business in the South-East. The company is building a 10 terajoules-a-day facility at the site of the previous Katnook facility, near Penola, with first gas expected in mid-FY20. More drilling and the expected results are likely to quadruple the company’s long-term aspirations for that site. “If we are successful with further drilling, we would love to get that up to 40TJ/day, that would be a very good outcome for us and a great out come for the community as well,” Mr Kay says. A 40 TJ/day plant would process the gas equivalent of powering 100,000 homes daily. Beach Energy recently moved into its new CBD home on Flinders St, next door to SA’s largest energy company, Santos. In response to a question about a potential consolidation, Mr Kay prefers to focus on the collaboration between the two. Both have been strong partners in the challenging Cooper Basin. “Also, Kevin (Gallagher, managing director of Santos) and I have known each other for more than a decade; we worked together at Woodside,” he says. “We tend to help each other to grow and develop as (individual) companies.” On broader consolidation and being a potential target for takeover, Mr Kay says the high rates of return makes Beach Energy a very “attractive company to invest in”. “So, I’m sure there is always a potential that would make us a potential acquisition target,” he says. “That’s not our prime target, and not the outcome we necessarily would ever want. “What we want to do is create value for shareholders over the sustainable term; that’s what we try and aim for.” Among those shareholders is the Seven Group, which has more than a 28 per cent stake in the company. “If there was a takeover situation, we would deal with that if it ever came,” Mr Kay says