

West coast gas sector heats up as companies rush North Perth Basin

 smallcaps.com.au/west-coast-gas-sector-heats-up-companies-rush-north-perth-basin/

September 16, 2021

By

[Tim Treadgold](#)

-



Western Australia's North Perth Basin is seeing an increased level of activity not seen in decades.

Politically incorrect as it might be to invest in oil and gas there is a yawning value gap opening between share prices and a record international price for natural gas, with a bonus in the form of a takeover rush for producers and explorers.

The top end of the Australian oil patch has attracted most publicity so far thanks to the proposed merger of [Santos \(ASX: STO\)](#) and [Oil Search \(ASX: OSH\)](#), with [Woodside's \(ASX: WPL\)](#) planned acquisition of [BHP's \(ASX: BHP\)](#) petroleum business to follow.

But the same forces behind those multi-billion-dollar deals are at work at the smaller end of the oil and gas market, with one location offering remarkable potential for merger and acquisition activity (M&A) as well as direct value from discovery and development.

North Perth Basin

The North Perth Basin, a geological structure stretching along Australia's west coast from Perth to Carnarvon, is undergoing a burst of action to rival anything in the last 50 years as explorers drill deeper to make discoveries missed in earlier campaigns.

Leading players in a region centred on the sleepy fishing and holiday centre of Dongara are Mitsui, a Japanese conglomerate, Beach Energy (ASX: BPT), a business controlled by media and industrial equipment billionaire, Kerry Stokes, and most recently, Mineral Resources (ASX: MIN), controlled by another WA billionaire, Chris Ellison.

Stokes and Ellison are the most likely consolidators of the smaller operators around Dongara, a group that includes Strike Energy (ASX: STX), Warrego Energy (ASX: WGO), Norwest Energy (ASX: NWE), Triangle Energy (ASX: TEG), Pilot Energy (ASX: PGY) and Talon Energy (ASX: TPD).

The starting point

To understand what's happening in a region largely foreign to investors in eastern Australia a starting point is 1971 when a consortium that included oil giants, Shell and Chevron, trading as WA Petroleum (Wapet) discovered the Dongara gas field which, in its day, was classified as a giant.

Gas from Dongara powered WA's embryonic alumina processing industry which grew to become a global leader, as well as nickel refining, and Perth households.

But by the 1980s, Dongara was under the threat of an even bigger source of gas, the Woodside-managed super-giant North West Shelf which captured markets after a controversial "take or pay" deal with the WA Government which ensured a flooded local gas market, killing most activity around the region.

Roll forward in time and the North West Shelf is fast depleting, gas prices are rising and the Perth Basin is undergoing a rebirth with explorers picking up where Wapet left off with Mitsui and Beach developing their jointly-owned Waitsia project adjacent to the Dongara field, while Strike and Warrego develop their discovery, the West Erregulla field.

Buoyant local market

Underpinning the rush back to Dongara is a buoyant local gas market being driven by the same force as the 1970s, mineral processing (with a novel twist), and the new market which no-one imagined 50 years ago, the creation of a liquefied natural gas (LNG) export business at precisely the right time with Asian LNG prices soaring 10-fold over the past 18-months to a record of more than US\$20 per million British thermal units.

The novel twist in the reincarnation of the North Perth Basin is that some of Dongara's gas will be consumed to power a new mineral processing industry, lithium, which is itself destined to be used in the global rush into battery production.

This irony should not be lost on investors that gas, an old but still highly profitable energy source, is being used to make the raw materials needed for storing renewable energy, lithium and nickel.

Of equal importance as the local WA market, which is booming thanks to strong commodity prices (especially iron ore, nickel and alumina), is the imminent start of LNG exports via a unique deal between Mitsui and Beach with the North West Shelf partners which will see Waitsia gas used as “backfill” to plug a gap left by the decline of fields operated by Woodside.

All the action in the North Perth Basin is occurring as investors look the other way, concerned about the environmental, social and governance (ESG) issues associated with fossil fuels despite gas playing a role as a half-way house to a future powered by renewable energy.

Ready for M&A

What’s happening around Dongara is perfectly poised for a burst of M&A activity, possibly led by Beach which has suffered a sharp share-price fall after a downgrade of its Western Flank oil and gas fields in South Australia’s Cooper Basin.

Stokes in particular will not be amused by the 40% fall in the Beach share price from \$1.85 at the start of the year to latest sales at \$1.12 – a drop occurring as oil rises above US\$73 a barrel (up 250% on early last year) and gas rockets up in Asia and in eastern Australia where a shortage of the fuel is developing. Even in the US, gas prices have doubled since April.

With LNG exports expected to start soon the outlook for the Waitsia joint venture (Beach and Mitsui) is bright, as it is for the West Erregulla partners (Strike and Warrego) despite internal instability about how best to develop the field – Warrego is focused on pipeline gas sales into the local market, Strike is keen on a fertiliser (urea) production option.

With a combined stock market value of less than \$1 billion (Strike at \$586 million and Warrego at \$262 million) a raider could snatch control of a valuable gas field at a bargain basement price given the outlook for gas demand.

Smaller players in the west coast gas game, including Triangle (which is also an oil producer at its 79% owned Cliff Head project), Norwest, Talon and Pilot are all valued on the market at less than \$100 million each, tasty morsels for a bigger oil and gas company interested in their increasingly valuable tenements.

While Stokes is the obvious consolidator, a new possible player in Dongara is Chris Ellison, who has just made what looks to be a significant discovery with the Lockyer Deep well in which his Mineral Resources has an 80% interest and Norwest 20% – with any production almost certainly earmarked for mineral processing, especially lithium which is a fast-growing business of Mineral Resources.

All companies active in the region will benefit from the increasing exploration, development and corporate activity, especially if Stokes, Ellison, or another potential consolidator examines the opportunity in the same way the [nickel mines around Kambalda are poised for a burst of M&A.](#)

For investors there is deep value in the Australian oil and gas sector, if only because it has been ignored over ESG considerations even as commodity prices rise, with a major upgrade of the entire sector seen by some analysts because local oil and gas stocks are trading at a 50% discount to the underlying oil price.

Join Small Caps News

Get notified of the latest news, interviews and stock alerts.