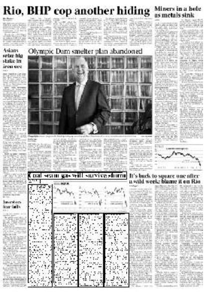
Rio, BHP cop another hiding

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Coal seam gas will survive storm

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Resources

DESPITE slumping global energy prices and tumbling shares, Gladstone's coal seam gas-to-LNG hopefuls are in a decent position to weather this financial storm.

While the inter-related credit freeze and falling oil and gas prices have severely dented investor sentiment, and there is no questions projects could be delayed, the main local players remain cashed up from stake sales.

Analysts also say oil prices that are hovering around $US70 a barrel still have a long way to fall before the LNG export schemes start looking uneconomic.

"I do not see the fall in energy prices as being too much of a negative for coal seam methane," ABN AMRO analyst Chris Brown said.

"The oil price would have to be well south of $US50 a barrel for the projects to be uneconomic."

The projects are also based on long-term average oil prices and with production not expected for four to five years, a short dip below $US50 would not derail them.

The financial world is a vastly different place to what it was just six weeks ago, when Origin Energy auctioned off a stake in its huge Queensland CSG reserves to ConocoPhillips for up to $9.6 billion, marking the peak in a series of transactions with global players that, at that stage, had markedly revalued higher its reserves.

But since early September, when the Origin deal was announced, most of the four local companies have suffered share price falls more than double the 19 per cent fall in the All Ordinaries Index over the same period, as investors cashed in shares and fretted about the state of energy prices and unbuilt projects.

Santos, which is planning an 8 million tonnes a year LNG plant with Malaysia's Petronas, has slumped 48 per cent. Queensland Gas, which has aligned with BG Group for a project about the same size, is down 41 per cent. And Arrow Energy, which sold 30 per cent of its reserves to Shell and is looking at a much smaller plant, has lost 38 per cent.

But Origin, which is planning a mammoth four-train, 14 million tonnes a year operation with Conoco that would rival the size of the North West Shelf LNG operation, has held strong and is down just 13 per cent at $15.37.

This is not far below the $15.50 a share that BG offered for Origin before Santos's $US2.5 billion sale of a share in its CSG assets to Petronas resulted in Origin managing director Grant King walking away and trying to get more for his reserves.

Morgan Stanley energy analyst Stuart Baker said the global malaise and lack of access to cash was bound to slow development, but that the CSG-to-LNG sector probably would not be derailed.

"In general, the coal seam gas industry has a couple of attractive aspects that are beneficial," he said.

"They have world-class reserves and large companies that are putting in a lot of investment.

"If oil goes to $US30, then not much is viable, but you would hope their investment would be on a more conservative view of the world than those in markets (that pushed oil up to almost $US150 a barrel earlier this year)."

Mr Baker also said that LNG demand was based on electricity use and therefore not as sensitive as that for petrol when global growth slowed.

In February, QGC said that with oil at $US60 a barrel, its share of the BG project would bring in revenue of $25 billion over the life of the project and $800 million in earnings before interest, tax, depreciation and amortisation.

None of the players would reveal long-term oil prices at which they thought their plants would become uneconomic, or what price their studies were based on.

Santos pointed out oil prices were at about the same level as they are now when it announced its $8 billion project in July last year.

"The fundamentals for energy demand remain on track," a spokesman said.

"Our bet on Asian energy demand is well founded and the economics of our project depend not only on revenue but on costs."

Costs of major resources projects, which have been subject to huge inflation in recent years, are expected to pull back with sliding commodities prices.

Despite confidence projects would proceed, ABN AMRO's Mr Brown said falling share prices and a sliding dollar might make consolidation in the sector cheaper for predators.

"I think something more will happen in the sector, with the fall in the dollar making it 20 per cent cheaper (in US dollar terms) to acquire coal seam gas reserves," he said.

"I think we are going to see one big facility with a number of trains (production units) and ownership based on the amount of reserves held."

Santos could become a prime focus for acquisitions once a 15 per cent shareholder cap is lifted at the end of the month.

The removal is designed to provide more value to the shares, but the current environment will probably have many a potential suitor baulking.

In its annual report released yesterday, QGC gave no indication it saw any risks to its project since it last spoke about it a month ago.

"While it is a moot point just how many LNG plants will end up being built at Gladstone, I believe you can count on at least two production trains from the QGC/BGC alliance," departing chairman Robert Bryant said in the report.

Mr Bryant announced yesterday he would retire at the company's annual meeting on November 27 and that ABN AMRO Morgans chairman Tim Crommelin would take his place.

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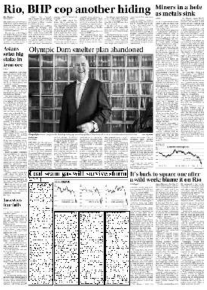

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