

Santos

30 August 2022

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Issuer Outline

Santos Finance Limited (Santos Finance) is the financing subsidiary of Santos Limited (Santos, Company), listed on the ASX with a market capitalisation of AUD26.8bn as of 30 August 2022.

Santos produces natural gas, such as liquefied petroleum gas (LPG), ethane, methane, coal seam gas, liquefied natural gas (LNG), shale gas, condensate, and oil, making the Company Australia's second largest independent oil and gas producer and largest domestic gas supplier. The Company also explores, develops, produces, transports, and markets hydrocarbons for homes and businesses in Australia and Asia.

Santos aims to be a world-leading clean fuels company, meeting customer demand for net zero emissions LNG, hydrogen and other hydrocarbon products through carbon capture and storage, nature-based offsets, energy efficiency and using renewables in its operations. The Company is targeting net zero emissions in its operations by 2040.

Sector: Resources
Sub-sector: Gas & Oil
Country: Australia
Ownership: Public

Key Financials (USDm)

LTM (30 Jun)	2022
Revenue	6,439.0
EBITDA	3,803.0
Net Interest Expense	(154.0)
Total Assets	29,558.0
Cash	3,364.0
Debt	7,501.0
Net Debt/EBITDA	1.1x
EBITDA/Net Interest Exp.	24.7x

Source: Company Reports, S&P Capital IQ

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call	Maturity Date
USQ82780AF65	USD 1bn	Senior Unsecured	3.649%	Semi-Annual	29 Jan 2031 ¹	29 April 2031

¹Subject to potential earlier redemption premium using a discount rate equal to the relevant Treasury Rate + 35bp.

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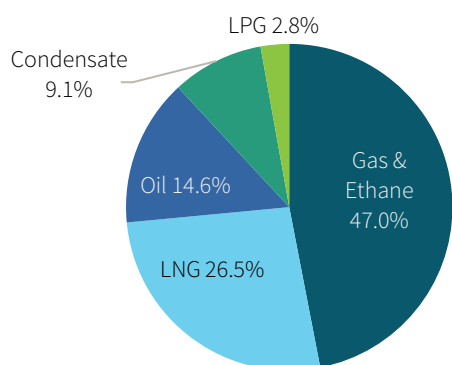
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Strengths

- Competitive position and diverse operations:** Santos is one of Australia’s largest domestic suppliers of natural gas. Santos’ business is based on five core long-life natural gas asset hubs: Cooper Basin, Queensland & New South Wales, Papua New Guinea, Northern Australia & Timor-Leste, and Western Australia. In addition, Santos has major growth projects that are in various stages of appraisal and development, including the Barossa project (Northern Territory), the Moomba Carbon Capture and Storage project (South Australia), and the Dorado development (Western Australia).

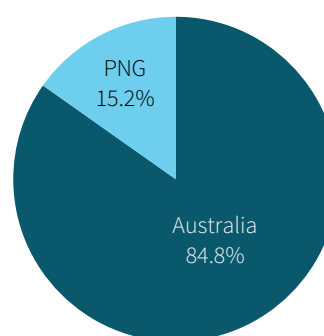
While Santos’ operations are weighted towards Australia (see Figure 2), its portfolio is diversified strongly by products (see Figure 1). Over FY21, 47% of Santos’ sales volumes were sold into the domestic market predominately on fixed price terms indexed to inflation, LNG sold predominately under long-term contracts accounted for 26.5% of sales volumes, and low-sulphur crude, LPG and condensates accounted for 26.5% of sales volumes.

Figure 1: Sales revenue by product FY21



Source: Company

Figure 2: Revenue by geographical region FY21



Source: Company

- Highly contracted revenue with a large share of fixed-price, CPI-Linked cash flows:** Santos’ significant amount of inflation-linked sales volumes mitigates its exposure to oil price volatility and makes the Company somewhat comparatively more resilient through the oil price cycle. Further, based on booked reserves, it is expected that these assets will deliver reliable production over the next ten years and as Santos develops its major growth projects into production to both increase asset life and grow production levels.
- Robust balance sheet:** Santos’ capital allocation approach ensures that funds are allocated to the best opportunities in its portfolio, applying a set of disciplined operating model criteria while ensuring that its balance sheet can be managed appropriately through the cycle. As at 30 June 2022, Santos’ net debt was USD4.5bn and its net debt has remained relatively stable over the past five years, despite the significant growth in the business, both organic and through acquisitions. Back in 2021, the Company reduced its gearing range target (from 15-25% from 20-35%) to reflect its commitment to balance sheet strength. Liquidity remains solid as well, with USD5.4bn of total available liquidity as at 30 June 2022, made up of cash and undrawn debt facilities, which is more than enough to cover upcoming maturities.
- Conservative growth strategy:** Santos’ growth projects focus on leveraging its existing infrastructure, including multiple growth options at various stages of appraisal and development. Recent examples include the Barossa project in the Northern Territory and carbon capture and storage project at the Moomba site, sites at which Santos already had a stake in. A key differentiator between Santos and its peers is that Santos’ growth projects are predominately brownfield focused and involve existing infrastructure. Consequently, the development of its growth projects is typically lower cost and lower risk when compared to the development of new ‘greenfield’ projects.

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- **Strong and experienced management:** Santos has a strong management team who have a successful track record in delivering its clearly defined strategy. The management team has a wealth of technical, operational and management experience in the oil and gas industry. Santos' CEO, Kevin Gallagher, has over 25 years' experience in managing oil and gas operations and its COO, David Banks and Executive Vice President Offshore Oil and Gas, Brett Darley, each have over 30 years of experience in the oil and gas industry.

Risks

- **Cyclical and capital intensive nature of industry:** Santos operates in the gas and oil sector and may be impacted by weak market conditions in the resources industry. Oil, gas, and LNG prices are affected by numerous factors beyond the Company's control and have historically been volatile and unpredictable. Santos' business relies primarily on the production and sale of oil and gas products to a variety of buyers under a range of short-term and long-term contracts. About half of Santos' production is oil-linked, including its LNG sales volumes. Santos' LNG market risk exposure is primarily to contractually agreed LNG price slopes (that link LNG gas prices to oil prices) at the point of commercial sales purchase negotiations. Weaker LNG slopes for newly contracted supply in global LNG markets could influence new contract outcomes, and therefore reduce Santos' revenues and the profitability of its operations. In 2022, oil and gas prices have been elevated but this came after a slump in 2015-16, in which Santos had to cut costs.
- **ESG pressures:** Increasing attention to ESG matters may adversely impact Santos' business and strategic objectives. In recent years, increasing attention has been given to corporate activities related to ESG matters in public discourse and the investment community. A number of advocacy groups have campaigned for governmental and private action to promote change at public companies related to ESG matters, including through the investment and voting practices of shareholder activists, investment advisers, and private fund managers. A failure to understand and respond to investor or public expectations and standards, which are evolving could cause Santos reputational harm and may adversely impact its business and strategic objectives.
- **Execution risk of upcoming growth phase:** Santos' success depends upon its ability to deliver major growth projects, the failure of which could prevent the Company from realising profits, or result in the total or partial loss of initial investments. Growth phases often require a significant amount of capital, in a diverse range of oil and gas projects to extract, process and supply oil and gas to a variety of customers. Santos spends (and will continue to spend) significant amounts of capital expenditure on existing operations, such as the Cooper Basin and GLNG, in addition to major growth projects, such as the Barossa project, which will provide natural gas to backfill the DLNG Plant. The Company has a 2040 net-zero goal.
- **Country risk from Oil Search acquisition:** Despite the merger with Oil Search, which delivered increased scale and capacity and opportunities for growth, Santos' exposure to Papua New Guinea, a country which is more likely to experience economic and political risks, is likely to grow. However, Santos has in the past demonstrated its willingness to recalibrate its portfolio so that individual asset risks are diversified across its broader portfolio mix.

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