

Woodside Petroleum vs iTraxx Australia

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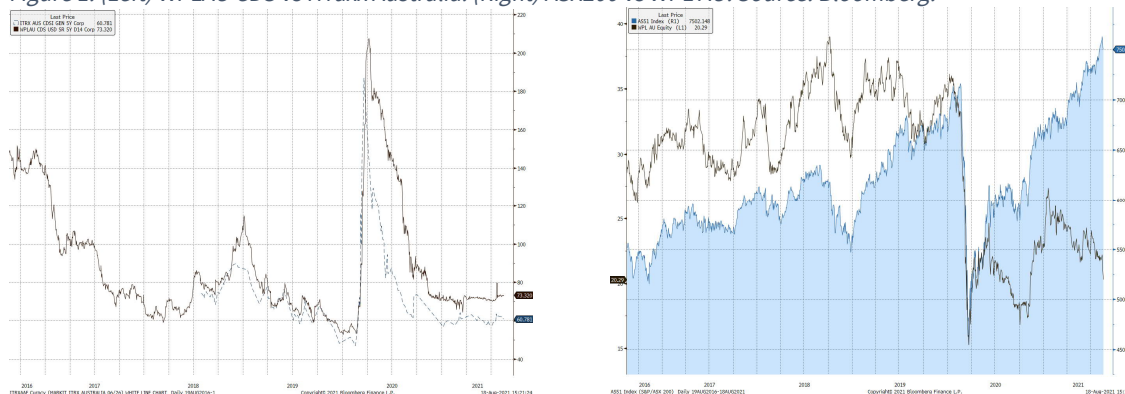
Woodside Petroleum Ltd (ticker: WPLAU) is in the news through a deal with BHP to gain control over significant fossil gas production.¹ The company has underperformed the Australian stock market significantly on this, which adds to a longer period of marked equity underperformance. Credit, however, has remained remarkably firm, with both bonds as well as CDS trading in tandem with broader indices. The historical cross-asset class experience is that prolonged equity underperformance tends to lead credit underperformance. Consequently, the following relative value box could be interesting:

- Buy USD10mn of WPLAU 5yr CDS, indicatively @75bps (*short risk*)
- Sell USD10mn² of iTraxx Australia S35 5yr CDS, @60bps (*long risk*)

Fundamentally, we view WPLAU's execution risk on the deal as significant, bearing in mind the track-record of the WPLAU management almost halving the share price of the company since the peak in 2018. We also see a non-zero probability for stranding of the legacy BHP assets with associated financial drag. These two factors have the potential to decrease the creditworthiness (avg. BBB+, Neg outlook on Moody's and S&P) of WPLAU relative to the broader Australian market.

WPLAU is one of 25 constituents of the Australia CDS index. The WPLAU USD4.5 03/29 (ISIN: US980236AQ66) bond could be considered a benchmark bond and trades ca. G+141/z+143 with an indicative negative basis of 45bps. Key bond investors in the company's debt are Allianz/PIMCO and a surprisingly long list of US insurance companies.

Figure 1. (Left) WPLAU CDS vs iTraxx Australia. (Right) ASX200 vs WPLAU. Source: Bloomberg.



¹ E.g. see '[LNG Get a New Major Player with Woodside's Deal for BHP Assets](#)', Bloomberg, 18 Aug 2021

² Alternatively, sell USD12.5mn of iTraxx to get a carry-neutral trade but with some market beta. We recognize the limited liquidity especially in the single name leg of the trade - get in touch to discuss.

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