Platino Energy and Kelt Exploration: Two Recent Spin-Offs Under the Microscope

Description

As the old saying goes, the early bird catches the worm. But is there any worm for the early birds in **Platino Energy** (TSXV: PZE) and **Kelt Exploration** (TSX: KEL)?

Both were formed through spin-offs in late 2012 and the awareness about them still seems quite low — which is why today I'd like to shed some light on these new entrants in the energy patch.

The birth of Platino Energy

Pacific Rubiales (TSX: PRE) acquired C&C Energia in late 2012 to gain access to the prolific Llanos basin of Colombia. C&C Energia was holding interests in eight blocks in Colombia totaling 647,500 acres, and was expecting production to average about 10,800 bbl/d for 2012. Under that deal, a new exploration company was also formed. That new entity was Platino Energy, which acquired C&C Energia's interests in the Middle Magdalena and Putumayo Basins in Colombia. It also received cash of $80 million from C&C Energia.

Case study: Platino

Platino is well-funded, holding $78 million net cash and $0 long-term debt as of the first quarter of 2013. It has budgeted capex of $21 million for 2013, primarily to test Coati and Putumayo Blocks for oil accumulations. Both Blocks are surrounded by producing fields or are on trend with several large fields that gives increased odds to the company's efforts for successful drilling results.

Meanwhile, Platino's market cap is quite small — $88 million – and disproportionate to its cash position. This indicates two things:

1. Either this new company flies under the radar (which is likely), or
2. Investors want more concrete information about the acreage before jumping aboard the Platino train.

The latter will be seen by the third quarter of 2013. Platino has completed all the civil works and willdrill its first well in the Coati Block this month.

It must also be noted that the operations in Colombia carry both pros and cons. On the one hand, the oil producers receive Brent-based pricing that increases their operating netback and spurs them to drill. On the other hand, Colombia faces permitting delays, pipeline constraints, and occasional safety concerns despite the tremendous progress the country has made lately in all these fronts, eliminating bureaucracy and providing security to the foreign investors.

The birth of Kelt Exploration

Last fall, **ExxonMobil** (NYSE: XOM) bought Celtic Exploration for roughly $3 billion in cash and stock, adding oil and gas production in Canada's Montney and Duvernay shale. It was the largest purchase by ExxonMobil since its $35 billion takeover of XTO Energy in June 2010.

Exxon's deal included 545,000 net acres in the Montney shale and 104,000 acres in the Duvernay fields, which are expected to add significant liquids-rich resources to the company's existing North American unconventional portfolio. Under that deal, a new company was formed with assets not included in the agreement. The new entity was **Kelt Exploration**, led by Celtic's CEO.

Case study: Kelt

As of the first quarter of 2013, Kelt produces approximately 3,600 boepd (18% oil and liquids) from its assets in Alberta and British Columbia, while also holding 8.4 MMboe proved reserves and 11.8 MMboe 2P reserves. Furthermore, the company is debt-free, guides for 3,800 boepd (22% oil and liquids) by yearend and has a market cap of $610 million.

To hit its production target, the company completed an equity financing of nearly $95 million in April 2013 and has budgeted to spend $52 million on drilling wells, infrastructure, and seismic for the remainder of 2013. It is also worth noting that Kelt's insiders own 23.7% of the company, aligning their interests with those of outside shareholders.

Despite being well-funded with high levels of insider ownership, I'm not as bullish on Kelt at current prices.

Pro-financing, Kelt has an enterprise value of around $515 million — or $143,000/boepd and $43.64/boe of 2P reserves. These key metrics are extremely high for a company heavily weighted toward natural gas. Many of Kelt's peers with a more oil-weighted production mix trade at much lower valuations.

For instance, **Artek Exploration** produces 3,603 boepd (41% oil and liquids) and holds 29.6 MMboe of 2P reserves. With an enterprise value of around $230 million, Artek trades at $63,800/boepd and $7.77/boe of 2P reserves. One more example: **Crew Energy** produces 28,000 boepd (51% oil and liquids) and holds 153 MMboe of 2P reserves. With an enterprise value of around $1.07 billion, Crew trades at $38,200/boepd and $7/boe of 2P reserves.

Foolish round-up

In this Fool's opinion, Kelt doesn't present an attractive risk-reward profile at current price levels. On the other hand, Platino, a micro-cap that has flown below the radar, looks to me to be undervalued. Assuming the company has a decent exploration success — no small assumption, of course — investors in Platino could be well-rewarded.

This post was created by Fool contributor Nathan Kirykos.

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1. Investing

TICKERS GLOBAL

1. TSX:KEL (Kelt Exploration Ltd.)

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