Is This the Right Time to Buy This South American Oil Play?

Description

Last year, Argentina became unpopular due to the modern version of the Falklands War, the Vaca Muerta “War.” In April 2012, Cristina Kirchner nationalized 51% of **YPF** (NYSE: YPF) without paying a single penny. The Vaca Muerta (Dead Cow) “War” started.

Kirchner accused Spanish multinational oil company **Repsol** of fleecing YPF by using too much of its profits for shareholder benefits rather than investing in exploration and turning Argentina into an importer of fuel. What nerve Repsol had – using profits to benefit shareholders!

Seemingly, Repsol was doing this because Argentina had been turned into an unattractive place for an oil and gas company to invest by Néstor Kirchner, Cristina’s late husband, who gained power in 2003. He capped domestic fuel prices and held the wholesale price paid to foreign producers below the global level.

Furthermore, **Petrobras Argentina** (NYSE: PZE) had its Veta Escondida concession revoked in April 2012. At the same time, the Argentinian government revoked Fortin de Piedra Block from Tecpetrol and Covunco Norte concession in the Neuquen Basin from the Canadian oil junior **Azabache Energy**. In late 2012, Argentina’s largest natural gas-producing province, Neuquen, was considering returning exploration and production licenses to Brazil’s **Petrobras** and other companies, but this has not happened yet.

Argentina, and specifically the Neuquen bain, is also the place where the company that we’re going to take a closer look at, **Americas Petrogas** (TSXV: BOE), has conventional and unconventional oil and gas interests.

The assets

Americas Petrogas is the third biggest acreage holder in the Neuquen Basin, behind Pluspetrol and the aforementioned YPF.

BOE holds 1,370 million net acres; that’s followed by **Apache**, which recently increased its position to 1.3 million net acres; and Petrobras Argentina and **ExxonMobil**, which own 0.94 million net acres and

0.88 million net acres, respectively. Americas Petrogas also has joint venture partners including ExxonMobil for its Los Toldos Blocks I and II (45% WI), Apache, and **Gran Tierra Energy**.

Furthermore, it recently completed the expansion of its facilities in Argentina. The expanded facilities allow the company to treat 6,300 boepd and significantly reduce its production costs.

BOE also has potash assets. In Peru**,** the company's subsidiary, Americas Potash Peru, acquired an additional 10,000 hectares of concession lands in the Sechura Desert with potential for phosphates and other minerals. These additional lands are located directly north of lands recently acquired by **Vale**. In 2011, Vale, in joint venture with **Mitsui & Co.** and **Mosaic**, put into production a 3.9 million tonne (capacity) per year surface phosphate mine nearby Americas Potash Peru's concessions.

The Pros and Cons

On the surface, these assets look solid, if for no other reason than they are situated amongst assets held by some of the biggest names in the resource space. However, let's think a little more critically about these holdings and run through the pros and cons of Americas Petrogas:

First, the pros…..

- As mentioned, the company holds vast acreage with significant unconventional potential, targeting primarily the Vaca Muerta shale formation along with other conventional zones of interest. Vaca Muerta is Latin America's largest shale formation and is estimated to hold at least 23 billion barrels of oil equivalent, according to a report by independent auditor Ryder Scott released in February 2013 after surveying about a third of the formation.
- It enjoys a strong operating netback even though the realized oil price is significantly reduced due to the following two reasons: On the one hand the oil exports are subject to an export tax regime, and on the other hand the oil sold in the domestic market is priced at a discount.

However, Americas Petrogas has the opportunity to increase this oil price thanks to the Oil Plus Program of the Argentinian Government. Between 2010 and 2012, the company filed requests for Oil Plus Incentive payments totaling approximately $34 million. Thus far, payments totalling US$11.9 million have been made under this program.*

- It's debt-free.

On the other hand …

- ?he nationalization fear will always linger for foreign producers in Argentina, and I don't believe this fear has been priced into the company's current valuation. Kirchner's interventionist policies have caused significant setbacks in investor confidence and overall appetite for working with the Argentine government.

- It trades at very high metrics on both valuations (per boepd of production and per boe of 2P reserves). Let's take a closer look at this.

In May 2013, Americas Petrogas produced 2,560 boepd primarily from two of its conventional blocks, Medanito Sur and Rinconada Norte. In addition, the company's conventional proved and probable (2P) reserves are 9.1 MMboe.

With an enterprise value of around $223 million, it trades at $87,100/boepd and $24.51/boe of 2P reserves. Neither of these two key metrics are low. In fact, they are quite rich.

- It carries significant exploration risk because its acreage has not been de-risked yet.

The buyout rumors

In early 2013, the company was rumoured to be a takeover candidate, trapping many investors. The valuation shot up, driven by this hype and speculation. Those who dipped their buying toes into Americas Petrogas at those levels have lost their shirts. The rumours have driep up and the stock has dipped more than 50% since.

Foolish roundup

Hunting for bargains or stocks with compelling valuations in an emerging economy like Argentina is not a bad idea. However, I don't believe Americas Petrogas represents a compelling enough opportunity — the cons currently outweigh the. In other words, Americas Petrogas could get cheaper before it gets more expensive.

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** An earlier version of this post indicated that less than $1 million had been received thus far under this government program. We apologize for any confusion this may have caused.*

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The original version of this post was created by Fool contributor Nathan Kirykos.

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1. Investing

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motley-fool-staff