ExxonMobil Bulks up on Canada's Oil Sands

Description

Big oil is getting bigger as **ExxonMobil** (NYSE: XOM), the biggest of big oil is picking up additional acres in Canada's oil sands region from **ConocoPhillips** (NYSE: COP). The $720 million (USD) deal adds 226,000 largely undeveloped acres of land near the southern edge of the Athabasca oil sands. It works out to a pretty solid deal for both companies, so let's drill down a little deeper to see why this deal matters.

What's Exxon Getting?

For Exxon this deal is all about access to future oil production. The company and its Canadian partner **Imperial Oil** (TSX: IMO), which is 70% owned by Exxon, already are heavily invested in the oil sands thanks to the $11 billion Kearl oil sands project. These undeveloped acres, which Imperial is acquiring along with Exxon, gives the partners access to future oil resources which can be used to grow oil production, something Exxon in particular has struggled to do in recent years. While these are high quality acres, this deal is all about the future as Exxon and Imperial will be required to spend heavily to turn this acquisition into actual oil production.

Why is ConocoPhillips Selling?

ConocoPhillips already has one of the largest land and resources positions in the oil sands regions. In fact, the company holds an estimated 16 billion net barrels of resources. Its current five year plan has it investing $5 billion on a number of projects including Foster Creek, Christina Lake and Narrows Lake with its 50% partner **Cenovus Energy** (TSX: CVE). The current projects underway are expected to double production by 2017. In addition to that, there are a number of additional future projects which the partners can undertake to add even more oil production over the longer-term.

That is why, in Conoco's view, it's already pretty overweight the oil sands. In order to lighten up its exposure it's selling some of its non-core assets, which will free up additional capital that it can reinvest elsewhere. In fact, its plan is to use some of the funds from these non-core sales to reinvest in some of its other high growth assets such as the Eagle Ford Shale in Texas. That is why it is entirely possible that this sale isn't the end of Conoco's oil sands rebalancing effort, meaning the company could further reduce its exposure to the region with another sale.

Final Foolish thoughts

The bottom line here is that this is a pretty solid deal for both companies, but has more near term benefits to Conoco investors. The company was able to get a very fair price for land that it wasn't likely to develop for some time. It can use the cash to reinvest in assets that will have a much quicker return. Meanwhile, the deal adds to Exxon's inventory of long-term production growth projects as it continues to search for ways to replace its oil production. Finally, it also likely means these acres will be developed sooner rather than later as Exxon has the capital as well as a big need to find ways to actually start boosting its oil production.

Is it time to join Conoco and lighten up on Canada?

Canada has yielded its fair share of great companies. But unsuspecting Canadian investors could get ambushed by a glaring weakness in their portfolios. With companies like ConocoPhillips believing its overweight in its investment in Canada, is it time for you to consider if you too are overweight to Canadian stocks?

Fool contributor Matt Dilallo does not own shares in any of the companies mentioned at this time. The Motley Fool does not own shares in any of the companies mentioned at this time.

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1. Investing

TICKERS GLOBAL

1. NYSE:COP (ConocoPhillips)
2. NYSE:XOM (Exxon Mobil Corporation)
3. TSX:IMO (Imperial Oil Limited)

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Author
mdilallo