

The Duvernay Delivers for Chevron: Are Encana and Talisman Next?

Description

Chevron ([NYSE: CVX](#)) likes what it sees in Canada's [Duvernay Shale](#). After recently completing its initial exploration phase, the company called the results "encouraging." It went on to say that the discovery, "creates a foundation for future growth in Canada," for the company.

A closer look at the results

Chevron drilled a dozen wells as part of its exploration drilling program. So far just five wells have been completed and tied into production facilities. However, these wells delivered initial production rates of up to 7.5 million cubic feet of natural gas per day and 1,300 barrels of condensate per day. Moreover, liquids yields for these wells were between 30% and 70%.

These results exceeded the company's own expectations and helped solidify plans to move forward with the development of the play. Initial plans call for a two-rig drilling program that's designed to optimize the company's well and completion design. With about 325,000 net acres, Chevron has plenty of room to grow.

What does this mean for the industry?

Chevron's results actually suggest that **Talisman** (TSX: TLM) (NYSE: TLM) is sitting on a lot of value in its North Duvernay position, which it's attempting to sell. Talisman's position borders portions of Chevron's acreage as well as land controlled by **EnCana** (TSX: ECA) (NYSE: ECA). Chevron's results in the region could make it a possible bidder for Talisman's position as it could gain some nice synergies by consolidating the play.

Another logical bidder would be EnCana. However, while the company is adding to its Duvernay position I find it unlikely it will actually bid for Talisman's acres. EnCana's desire is to trim its overall resource position, so it's not likely to do much more than small bolt-on acquisitions. That being said, EnCana's Duvernay results continue to exceed expectations. Like Chevron, its wells are producing at high levels and are very liquids rich. The play clearly has the potential to be a long-term growth driver for EnCana.

Investor takeaway

The Duvernay is a play that investors need to keep on their radar. It appears to be a very solid liquids rich play that could generate strong growth for companies like Talisman and EnCana. It should also prove to be an important play for larger companies like Chevron that are searching the world for production growth.

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Chevron is a slow growth behemoth that is a great portfolio anchor. The Duvernay, on the other hand is like an exciting small-cap stock that could really juice results. If you'd like some small-cap

excitement for your portfolio, The Motley Fool Canada's senior investment advisor has a stock just for you. [Click here](#) to download a **FREE** copy of "[A Top Canadian Small Cap for 2013 — and Beyond.](#)"

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