Like the Duvernay? Then You'll Love This Stock

Description

The action is heating up in Albert's Duvernay. The word in the industry is that this play could rival the prolific North Dakota Bakken or the Texas Eagle Ford. And in the search for growth, the play has attracted the attention of growth hungry energy majors like **ExxonMobil** and **Royal Dutch Shell**.

Of course, the operations of companies like Exxon and Shell are spread out across several continents. So Duvernay bulls looking for more of a pure-play may want to consider this lesser known rival.

Is this North America's next big shale play?

The Duvernay is located in Western Alberta and covers an area about 100,000 square kilometres in size — larger than the states of Vermont, New Hampshire, New Jersey, and Massachusetts combined. The bounty up for grabs is mammoth. According to the Energy Resource Conservation Board, the field holds an estimated 62 billion barrels of oil and 443 trillion cubic feet of natural gas.

Early drilling results have been encouraging. One **Encana** (TSX: ECA)(NYSE: ECA) well had an initial production rate of 1,400 barrels of condensate and 4 million cubic feet of natural gas over its first 30 days. Five months after the well was completed, production still averaged 350 barrels of condensate and 2 million cubic feet of natural gas per day. These results have been, in fact, so impressive that the company has highlighted the play as one of its key five fields going forward.

U.S. energy major **Chevron** (NYSE: CVX) drilled a dozen wells as part of its exploration drilling program. 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%.

Here's how to play it

Yoho Resources (TSXV: YO) is the Duvernay pure-play investors are looking for. This small-cap company generates about one-third of its overall production from the field and investors should consider buying it for two reasons.

First, Yoho is sitting on primer acreage. Not all land in the Duvernay is created equally. Acerage in the thick, liquids-rich Kaybob area is the most profitable to exploit. And Yoho is sitting right in the middle of this region.

Second, the company is a takeover takeover target. Drilling economically in the Duvernay requires a transition to pad drilling, which still runs at $12 million per well. Few companies can front $30 million or more in exploration expenses before any cash-flow generation. While the company does has the financial resources to monetize its land holdings, Yoho's position would be far more valuable in the hands of neighbouring Chevron or Encana.

Financials from Yoho are thus an important indication of Duvernay profitability. And so far they look pretty good. In 2012, we saw the company add about $58 million in proven and probable reserves after spending $35 million in the field. Overall, each dollar spent created about $1.70 in reserves.

Foolish bottom line

Yoho Resources is not for the faint of heart. With a market capitalization of only $500 million, the stock would definitely qualify has a speculative holding in any portfolio. However, if the Duvernay becomes a commercial success, then Yoho will provide the most upside for shareholders.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CVX (Chevron Corporation)

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