This Canadian Oil Play Is Beloved by Peers; Should Investors Take Note?

Description

Last week, **Crescent Point Energy** (TSX: CPG)(NYSE: CPG) spent $334 million to bulk up its position in the Viking oil play of Saskatchewan. The deal consolidated Crescent Point's existing Viking land position as it added high-quality, high-netback production. It's that high-netback, or cash flow rich, nature of the Viking oil play that makes it beloved by dividend payers like Crescent Point Energy, **Penn West Petroleum** (TSX: PWT)(NYSE: PWE), and **Enerplus** (TSX: ERF)(NYSE: ERF).

Drilling down into the recent deal

Crescent Point Energy expects its Viking acquisition to provide it with exceptionally high netbacks of more than $85 per barrel. That will yield an $87 million boost to cash flow, which, after investing $35 million to maintain production, will leave the company with $52 million in free cash flow. That free cash flow will reduce the company's all-in payout ratio in 2015 by another 2%, which will strengthen the company's dividend.

The deal increases Crescent Point Energy's land position in Viking by 28%. This includes 258 future drilling locations, which increases the company's low-risk, high rate of return drilling inventory by 70%. Those future wells are important to the company because Viking wells earn strong rates of return, have a quick payout ratio, and generate substantial free cash flow, which will be used to further bolster the company's dividend in the future.

Cash flow funds dividends

The free cash flow rich nature of the Viking oil play is why it has become a core asset to Penn West Petroleum. The company is spending $150 million of its $900 million 2014 capital budget on the play, which places it second in the company's portfolio. Penn West sees the play as a real cash flow generator over the long term, which will give it what it needs to provide some more security to its dividend.

Enerplus also sees the Viking oil play as an important contributor to its cash flow. While the company is focusing on American shale plays like the Marcellus and Bakken to fuel growth, its low-decline Canadian waterflood assets like Viking provide solid base production and cash flow. Overall, the company sees assets like Viking as the free cash flow generators it needs to fund its dividend and its shale development.

The Viking oil play might not hold the astronomical growth potential of the oil sands or Canada's own shale plays like the Duvernay or Montney. However, it's a low-decline, high-netback oil play that's a perfect foundation for fueling dividends. That's why it will continue to be a beloved oil play by energy dividend payers for years to come.

CATEGORY

1. Investing

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