



## Are These 3 Juniors in the Patch Potential Takeover Targets?

### Description

Despite stronger fundamentals, and rising crude prices and narrowing price differentials between Canadian heavy crude and West Texas Intermediate making projects more profitable, it's not all good news for oil sands companies operating in the patch.

#### Why smaller oil sands players in the patch are struggling

A number of smaller players are continuing to struggle to find the necessary funding to develop their projects as investors are lured by the prospect of faster returns from U.S. and Canadian light oil plays. These plays are easier to develop than oil sands projects, offering far more rapid returns for investors, as U.S. and Canadian light oil production continues growing.

They are also not as badly afflicted by the ongoing pipeline crunch or the deep discount Canadian heavy crude trades at to WTI, which at this time is around 15%. These developments are pushing investors to look elsewhere for a better return on investment. This has seen the outlook for smaller oil sands companies deteriorate as investment funds dry up and investors focus on more easily developed U.S. shale oil plays, such as the Bakken and Eagle Ford.

Smaller companies without the necessary financial resources are struggling to find the required funding to develop their oil sands assets. This has depressed their share prices, leaving them vulnerable to further negative news, and opened up the potential for a wave of consolidation among smaller players as larger players seek to boost oil reserves on the cheap. As a result, they are now potential takeover targets.

#### This small-cap continues to struggle to obtain funding to develop its key asset

Since the start of the year, **Sunshine Oil Sands** (TSX: SUO) has seen its share price plunge 41%, yet the company is sitting on acreage which has oil reserves of 119 million barrels. These reserves — before income tax and after applying a 10% discount factor, in accordance with industry valuation methodology — have a net present value of \$449 million, which is almost 31% higher than its current enterprise value. However, since it has over three billion shares outstanding since its recent equity issue, this equates to a mere \$0.14 per share, or a 17% premium over its current share price.

The company is also struggling to obtain sufficient funding to develop its flagship West Ells project, and recently placed 640 million shares among major shareholders at a big discount to its share price prior to the issue. This significantly diluted existing smaller shareholders, creating further negative market sentiment around the company and its prospects for success.

### **A large cash windfall makes this small cap a prize takeover target**

**Athabasca Oil** (TSX: ATH) is fast shaping up as a takeover target, with the company continuing to trade at a depressed share price compared to its significant oil reserves. Those reserves total 384 million barrels, with a before tax net present value after the application of a 10% discount rate of \$2.1 billion, or \$5.25 per share.

However, with the company set to receive a \$1.23 billion cheque for the sale of its Dover oil sands assets, this value increases to \$8.25 per share, a premium of 10% over its current share price. This makes it an attractive takeover target, with any successful suitor not only gaining Athabasca's considerable oil reserves but also a large chunk of cash, which could be directed to fund the development of those assets.

### **Another small cap struggling to find a partner to develop its flagship oil sands asset**

Meanwhile, **Blackpearl Resources'** (TSX: PXX) share price remains flat for the year to date despite sitting on one of the hottest development projects in the oil sands, the steam assisted gravity drainage Blackrod project. This project alone holds oil reserves of 182 million barrels, with estimated oil resources of 566 million barrels.

Blackrod is currently in a pilot phase producing 211 barrels of crude daily. Blackpearl is seeking a partner to accelerate development of this project, which has the potential to produce up to 80,000 barrels daily once fully developed.

Blackpearl has oil reserves totaling 291 million barrels of crude, valued at \$2.2 billion before income tax and after the application of a 10% discount, which is equal to \$6.10 per share. This is a premium of just over twice Blackpearl's current enterprise value, or more than 2.5 times its current share price, highlighting that the market has yet to recognize its true value because of the costs and difficulties associated with developing those oil reserves.

As a result, it's an attractive takeover target for a larger player with deep enough pockets to bring the Blackrod project to full commercial production.

These depressed share prices, coupled with solid oil sands assets, will be tempting for a number of major energy companies operating in the patch and internationally, particularly with oil prices continuing to grow. In the case of Athabasca and Blackpearl, now may be the time for risk-tolerant

investors to make a bet on whether these companies will pop up on the radar of a potential suitor.

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