The Growing Power of Painted Pony Petroleum Limited

Description

In what started as an Alberta-only enterprise, **Painted Pony Petroleum Limited** (TSX: PPY) has expanded outside of its home province. The company branched out in 2011 into the northeast gas reserves of B.C. and the southeast light crude fields of Saskatchewan. Now, three years later, Painted Pony has sold off its Saskatchewan assets and relocated that capital to its B.C. natural gas operations.

This expansion in B.C. has been quite successful for the company, as its natural gas production is now greatly overshadowing its traditional Alberta-heavy crude operations. Now Painted Pony has entered into a new 15-year partnership agreement with **Altagas Ltd** (TSX: ALA) to take its B.C. operations to the next level.

The Montney alliance

In the deal, Altagas will purchase $50 million worth of Painted Pony shares — 4.2 million shares at a price of $12.00.

Altagas will become the primary marketer and will be the means of transportation for Painted Pony's gas to reach export markets. Not only will transportation infrastructure be provided, but processing facilities will also be created thanks to Altagas, such as a new $350 million processing plant in Townsend, B.C. that will be able to process 198 million cu/ft of shallow-cut natural gas per day.

This facility is expected to be completed near the end of 2015 and will be used to process the bulk of natural gas Painted Pony extracts from the Montney region. Representatives from Altagas believe that this partnership, coupled with the infrastructure upgrades, could eventually lead to 500 million cu/ft per day of natural gas becoming available for Altagas.

Natural gas taking over the company's portfolio

In Painted Pony's last quarterly report, it revealed that its natural gas production had increased a whopping 96%, reaching 76,997 million cu/ft per day. Its natural gas liquids production increased 236%. Compare this to a 10% decrease in heavy crude production and it becomes clear where the future of the company dwells. Even its natural gas margins are improving, as it reported a 69%

increase in netbacks from its B.C. operations.

This helped revenue climb by 121%, totaling $54.4 million, up from $24.6 million during the same period last year. Net income was eroded by a doubling of capital expenditure expenses. A net loss of $18.9 million was posted, while capital expenditures increased from $15 million to $30 million.

This is only a drop in the bucket compared to the $206 million that Painted Pony is projected to spend in capital expenditures in 2014, with the bulk of the funds earmarked for the gas fields of B.C., including continued infrastructure development at two of its gas compression and dehydration facilities.

Altagas export upgrades

With all of this new natural gas availability, Altagas will have to step up its game to provide the export facilities needed to ship this gas overseas. Altagas currently exports the bulk of its gas from Washington state. However, it will have to work overtime to get its proposed Triton liquefied natural gas greenfield project materialized. The project already has a permit from the National Energy Board to export 2.3 million tonnes of LNG per year, but under the best case scenario it won't be operational until 2017.

Following the announcement, both companies have seen a boost to their stocks, with Painted Pony closing Monday at $14.20 with an average price target of $18.20. Altagas closed Monday at $51.73 and carries an average price target of $53.10.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)

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Date
2025/08/24
Date Created
2014/08/27
Author
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