



Could Crescent Point Energy Corp. Be a Potential Suitor for Lightstream Resources Ltd.?

Description

There is growing speculation that plunging share prices across the patch, particularly among heavily indebted smaller oil producers, will trigger another round of consolidation.

One company that has seen its share price hit particularly hard is intermediate oil producer **Lightstream Resources Ltd.** (TSX:LTS). Over the last six months, its share price has plunged a massive 88% almost to penny stocks status, leading to speculation the company may now be a takeover target.

So what?

I think the most logical suitor for Lightstream is **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) because Lightstream's core light oil assets in Alberta are a good fit for Crescent Point's existing operations.

More compelling is Lightstream's current valuation. Its share price of \$0.85 per share represents a massive discount of 92% to the value of its oil reserves, even after adjusting the value of those reserves to allow for the significantly lower crude prices we are now seeing. It also has an enterprise value of a mere \$1.6 billion or \$7.90 per share, which gives it an enterprise value of five times its estimated 2015 EBITDA, underscoring just how attractively priced Lightstream is at this time.

The case for Crescent Point's potential acquisition of Lightstream becomes even stronger when you considered that a key plank of its operating model is increasing production through acquisitions. The acquisition of Lightstream would give Crescent Point high quality, long reserve life, low decline rate, and high netback light oil assets that hold 200 million barrels of oil. Lightstream's netback for the third quarter 2014 when the price of West Texas Intermediate averaged US\$97 barrel, was \$48.67 per barrel, only marginally lower than Crescent Point's netback of \$51.25 per barrel for the same period. The acquisition of Lightstream would also add additional production of 38,000 barrels daily, boosting Crescent Point's total existing daily production by around 33%.

Crescent Point has already shown some interest in Lightstream when it acquired the company's remaining Saskatchewan oil assets in September 2014.

While Crescent Point has recently cut 2015 capital expenditures because of lower crude prices, CEO Scott Saxberg continues to emphasize the strength of Crescent Point's balance sheet and the flexibility this gives the company. This signals the company may take advantage of the rout in the patch to acquire accretive assets at bargain basement prices.

Now what?

Clearly, Lightstream is significantly undervalued, having been sharply sold off by investors worried about its pile of debt (\$1.4 billion) and its high degree of leverage, with net debt more than two times its cash flow.

However, it is the company's attractive valuation coupled with its high quality oil assets that makes it a speculative play for investors and a potential acquisition target, with Crescent Point a likely suitor. Any takeover would occur at a premium and now is the time for investors with a tolerance for risk to make a speculative play on Lightstream.

CATEGORY

1. Energy Stocks
2. Investing

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Date

2025/09/10

Date Created

2015/01/26

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