ConocoPhillips Wants Out of Western Canada

Description

According to a report by *Bloomberg*, **ConocoPhillips** (NYSE:COP) is looking to sell some of its assets in Western Canada. The assets that are reportedly going up for sale are conventional natural gas properties in British Columbia, Alberta, and Saskatchewan.

In pursuing such a sale the company would be following the footsteps of peers like **EOG Resources Inc.**, **Apache Corporation,** and **Devon Energy Corp.** in walking away from conventional oil and gas production in Canada. However, one thing is clear and that's that none of these companies are looking to entirely exit Canada as all still see a lot of potential in the Canadian energy sector.

If the rumors are true

According to Bloomberg, ConocoPhillips is looking to sell assets that currently produce about 31,000 barrels of oil equivalent per day, or BOE/d, however, most of the production is natural gas. This still amounts to about 20% of the company's non-oil sands production in the country, so it's a big chunk of the company's conventional production.

However, when we add in oil sands production, it's a much smaller wedge. Just last quarter ConocoPhillips produced 296,000 BOE/d, which was 20,000 BOE/d higher than the fourth quarter of 2013 thanks to increased production from the company's Christian Lake and Foster Creek oil sands assets. In fact, oil sands production alone is expected to more than double from 100,000 BOE/d in 2013 to well over 200,000 BOE/d by 2017 thanks to new projects coming online, including a major expansion of its Surmont project that's coming online later this year. So, clearly this sale isn't a sign that the company is giving up on Canada.

A well-trodden path

Because unconventional growth assets like the oil sands and shale play are such big growth drivers, we're seeing U.S. energy giants like ConocoPhillips find that they're better off selling low growth assets such as traditional oil and gas wells in Western Canada. They can use the cash received for these assets to help pay for the growth they can get by investing in faster growing unconventionals. That's why we've been seeing a divestiture movement over the past few years as U.S. companies shed these slow growing Canadian assets in favor of faster growing unconventionals.

EOG Resources, for example, sold off virtually all of its Canadian assets late last year for US$410 million in two separate transactions. The natural gas assets didn't offer the company much growth so it took the cash and plans to use it to fund its higher return shale oil assets in the U.S.

Apache, likewise, sold off much of its conventional natural gas assets in Western Canada last year. It received US$374 million, which it used to reinvest in its higher growth areas. Finally, Devon Energy had the biggest divesture of the group. It unloaded $3.1 billion in conventional assets in Canada to **Canadian Natural Resources Ltd**. Like its peers, the company sold slower growth assets in order to reinvest into its higher growth assets.That deal also helped the company pay down the debt it incurred to secure its position in the fast growing Eagle Ford Shale in Texas.

What’s also worth mentioning is that all three held on to growth-focused assets in Canada. EOG Resources and Apache held on to their shale gas assets while Devon Energy is keeping its oil sands operations.

Investor takeaway

ConocoPhillips, like its other U.S. peers, isn’t walking out on Canada all together. Instead, it is joining these companies in walking away from conventional oil and gas production in Western Canada. The reason for the move is simple, those assets didn’t offer much, if any growth, so these companies are better off taking the cash from an outright sale and reinvesting it into areas that are really driving meaningful future growth.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:COP (ConocoPhillips)
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