Tourmaline Oil Corp. Does a $1 Billion Deal With Royal Dutch Shell plc

Description

Recently, **Royal Dutch Shell plc** (NYSE:RDS.A)(NYSE:RDS.B) agreed to sell over 206,000 acres in western Canada to **Tourmaline Oil Corp.** (TSX:TOU) for roughly $1 billion.

The deal included many oil and gas properties such as 61,000 acres in the Gundy area of British Columbia and 145,000 net acres in the Deep Basin area of Alberta. These currently produce 24,850 barrels a day of dry gas and liquids. The deal will be paid for with a combination of stock ($279 million) and cash ($758 million).

Some are now calling Tourmaline one of the best energy plays in North America. Should you be a buyer?

Making all the right moves

Tourmaline is executing every energy investors dream: it's rapidly growing production while persistently lowering costs.

In 2009 production was about 20,000 barrels per day. That's grown every single year to over 250,000 barrels per day. Reserves have also grown by over 800% over the same period. Meanwhile, operating costs have dropped consistently from $6.50 per barrel in 2009 to about $4 today.

Natural gas is still the future

Tourmaline is still predominantly a natural gas company. With prices back near $3 per mcf, shares have popped nearly 100%.

Upside may still be in the cards, however, considering the company's massive leverage to rising prices.

For example, a $1 per mcf rise in natural gas prices translates into a $365 million increase in Tourmaline cash flow. Natural gas prices have risen by over $1 per mcf in the past 12 months, so the stock has deservedly experienced a strong run.

With natural gas drilling still near historic lows–the gas rig count is down more than 90% from its highs–prices have continued to strengthen. Until they do, Tourmaline should have no problem beating its competitors on most profitability metrics.

Natural gas prices have averaged just $2.50 since 2015 began, spending extended periods below $2. This has forced many companies with high production costs out of business.

However, Tourmaline is so lean that it can generate profits even if natural gas prices plunge below $2. Estimates show that Tourmaline can remain profitable at $1.49 per mcf, the second lowest in the industry.

"You got to chip away at all of those and try to be profitable and one of the key for us is to finance, build and control our own infrastructure–that's what gives you the low op cost, and you can survive these low prices," said Michael Rose, CEO of Tourmaline.

When prices rebound, low costs will allow Tourmaline to enjoy outsized profit margins.

"If gas got to $4, we will have tremendous earnings–it's been painful with various oversupply scenarios. In the long term, we truly believe gas is going to get there," Michael Rose commented.

As long as natural gas prices rise over the long term, Tourmaline investors should profit.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:TOU (Tourmaline Oil Corp.)

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