



## Investors: This Massive New Oil Play Could Be Worth Billions

### Description

After Alberta Premier Rachel Notley and her ruling NDP government chose to take steps to cut back oil production in the province, investors might be forgiven for temporarily forgetting about energy stocks in general. The price differential between Alberta's heavy crude and spot prices for U.S. light crude is a big problem, one that may take months to fix.

But I'd argue the exact opposite. Oil stocks are getting slammed right now, with many trading at or near 52-week lows. Most trade at steep discounts to stated book value, although they've taken many steps to shore up weak balance sheets and drive their cost of production lower.

Most energy investors have heard of Alberta's two sexy oil plays — the Duvernay and Motney formations. The Duvernay is located in Central Alberta, while the Motney is more in the Northwest corner. Grande Prairie is essentially the divider; everything north and west of the city is the Motney, while anything east and south is the Duvernay.

The problem is prime acreage in both of these formations is drying up. Too many companies are chasing the same oil in the same locations. This drives costs higher, which ultimately reduces profit per barrel produced.

Thus, investors need to pay attention to the next play. To borrow a hockey analogy, they need to skate where the puck is going.

That next play is likely the East Shale Basin, and it could be absolutely massive. Here's how you can expose your portfolio to this next big energy treasure.

### Why East Shale?

The East Shale Basin is located immediately south and east of the Duvernay, smack dab in Central Alberta. This is why it's also commonly known as the East Duvernay. It stretches from just east of Red Deer all the way southeast to the Three Hills area.

It has many of the same properties as the Duvernay. The formation is rich in both light sweet oil and

natural gas liquids, and drillers must access these reserves by fracking.

There are a few reasons why investors should be bullish about this area. Many companies haven't really started to explore it yet, which means land rights can be acquired at a reasonable cost. It's close to already well-established energy infrastructure. There's a lot of oil there — one analyst estimated total reserves are between 30 and 60 billion barrels. And since the oil is relatively close to the surface, it's more cost efficient to drill there versus other locations in the province.

### How to play it

Unfortunately for investors, they can't buy shares in the one company that is really going all-in on the region. Privately-held Vesta Energy is a large player in the region, with approximately 80,000 hectares of land locked up. Up until 2017 it was the king of the region.

That changed when a couple of larger players noticed East Shale's potential. Raging River Exploration accumulated some 100,000 hectares of land in the area before the company agreed to merge with **Baytex Energy Corp** ([TSX:BTE](#))(NYSE:BTE). Baytex has just begun drilling in this area, but is reporting strong netbacks. 2019 will see continued expansion in the East Duvernay.

Baytex has recently been surpassed in the area by **Crescent Point Energy Corp** (TSX:CPG)(NYSE:CPG), which acquired 120,000 hectares of prime East Shale land in early 2018. Like Baytex, Crescent Point has just dipped its toe in the area so far; all it has really done is drill a series of test wells. It might take a little while for Crescent Point to really get going in the region too, as the company is focused on [improving its balance sheet at the moment](#).

### Foolish takeaway

The East Duvernay area is poised to be Alberta's big new energy play. It offers great returns on investment, plenty of sweet light crude, and access to existing infrastructure. If oil recovers sometime soon, the companies that got in today are going to be very happy.

### CATEGORY

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