



Canadian Billionaire Investor Seymour Schulich's Bets on Oil

Description

Canadian billionaire investor Seymour Schulich, through The Schulich Foundation, announced in August that he purchased another two million shares of **Pengrowth Energy Corp.** (TSX:PGF)(NYSE:PGH), increasing his stake to 18.6% of the energy company.

He has also been adding to his share of **Birchcliff Energy Ltd.** ([TSX:BIR](#)). In July, he acquired an additional three million shares, totaling about 45 million shares, or 30% of the company. These two stocks have returned over 100% year-to-date, outpacing the S&P/TSX energy index, which has gained about 20% over the same period.

Why Pengrowth Energy?

Pengrowth Energy has some of the top-producing conventional and oil sands assets in Alberta and over \$11 billion in potential development opportunities. However, the collapse in oil prices, the company's insurmountable debt, and consecutive earnings misses pushed the stock to all-time lows in early 2016.

The company also suspended its dividend in 2016 to free up about \$22 million in annual savings. The stock hit its 52-week low of \$0.66 per share in early January and has since climbed to about \$2.10 per share. In its latest corporate presentation, titled "Survive to Thrive," management stated that its focus for the near term is on improving the company's balance sheet through various cost- and debt-reduction strategies.

The company has \$640 million in debt maturing in 2017, which it expects to repay using excess cash from operations, \$300 million worth of dispositions, and the remaining drawn from its credit facility.

On a more positive note, the company's risk-management program has been successful at sheltering some of its funds from operation (FFO) from the 70% decline in commodity prices.

The company has been able to mitigate about 40% of potential declines in FFO due to the falling oil price. It hedged about 82% of its production in 2016 at \$83 per barrel and 96% of its natural gas at \$3.26 per million cubic feet. In addition, the company has been able to reduce its operating costs by

12% to approximately \$13.50 a barrel, which has improved its operating margins.

Why Birchcliff Energy?

Birchcliff Energy is one of the best-performing energy stocks in Canada with a compounded annual production growth rate of 30% since 2005. In Q2 2016, the company reported a modest 3% increase in production and a 70% decline in its funds from operations, primarily attributed to low commodity prices.

However, it has taken steps to reduce its operating costs by 24%, which are already some of the lowest in the industry. It also increased its capital expenditures in 2016 by 40% to \$145 million, which will be focused in the Peace River area of Alberta.

In June, the company announced that it agreed to purchase **Encana Corporation's** Gordondale assets. To fund the acquisition, Birchcliff Energy issued \$690.8 million in shares, fully subscribed by a syndicated of lenders, that included \$18.8 million in stock allocated to Schulich in a private placement.

As a result of the acquisition, the corporation has increased its annual average production guidance for 2016 by 25%. It also changed the company's commodity supply mix from approximately 88% natural gas, 8% light oil, and 4% natural gas liquids (NGLs) to 77% natural gas, 10% light oil, and 13% NGLs.

Conclusion

Growth investors in the energy sector concerned about the near term should examine each company's strategy for 2016 and 2017. Pengrowth Energy has over 30% of its debt maturing in 2017 and has indicated that any excess cash will be allocated to reducing this debt. The company has top-tier assets, but capital expenditure attributed to growth, which is down 86% this year, will come secondary to paying down debt.

On the other hand, Birchcliff Energy is increasing its capital expenditures in 2016 by 40%, taking advantage of a lower-cost environment. The Gordondale acquisition includes 992 potential drilling sites, which gives the company more options to employ its capital. It also adds a significant amount of liquids production with a relatively low base-production decline rate of approximately 20%, giving management more flexibility to increase company cash flows.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BIR (Birchcliff Energy Ltd.)

Category

1. Energy Stocks
2. Investing

Date

2025/08/17
Date Created
2016/09/08
Author
scottbrandt

default watermark

default watermark