

Oil and Gas Investor

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Drillbits are finding pay dirt in the Anadarko Basin's Stack and Scoop plays.

HARTENERGY

POISED TO WIN BACK INVESTORS?

With many E&P stocks trading at or near annual lows, companies are considering broadening their investor base at a time when the energy sector is deeply out of favor.

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“We’re starting to see a washout even in places where there had been significant resilience, like the Permian and the Scoop/Stack names,” said Josh Young, co-founder of Bison Interests LLC.

Houston-based Bison Interests LLC was co-founded by Josh Young and Carter Higley in 2015 with an investment philosophy largely aligned with current market conditions: deep value investing in an area that is significantly out of favor and, as a result, is “unloved and ignored.” The team has set out to find deeply discounted valuations, and that has helped protect value for investors this year.

Even so, “it’s been a bloodbath out there,” Young said. “Sentiment couldn’t be worse. We’re starting to see a washout even in places where there had been significant resilience, like the Permian and the Scoop/Stack names. Their equities have come under significant pressure, too.”

Bison’s investors mainly comprise family offices and high-net-worth investors, as well as a university endowment. Several high-net-worth clients have ties to the energy industry, including oil and gas private equity. Bison is focused on purchasing and managing public equities. In a portfolio of roughly \$60 million, it typically has 12 to 20 positions, including six to eight “top positions.”

The fund resembles a private equity fund in that it offers “patient capital,” according to Young. “We’re focused on long-term capital appreciation through a portfolio of heavily undervalued assets that are well-managed,” he said. “Just on cash flows at current commodity prices, energy is one of the few places where you can get value in an overvalued stock market.”

Bison’s mandate provides for energy investments in onshore U.S. and Canada. Investments are focused primarily on the upstream sector, with “occasional” midstream and service deals. Investing in Canada is by no means an after-thought: over half of fund assets are allocated to the Canadian energy sector. Young sits on the board of Calgary, Alberta-based RMP Energy Inc., in which Bison has a 9.5% holding.

In particular, Young is attracted to the Montney play, where acreage has been acquired—and is still in some places available—at deeply discounted valuations as

compared to the more elevated prices paid in the Permian. In addition, even with well economics that can offer 100%-plus rates of return, stocks can be bought at below the already discounted net present value of future cash flows, he said.

One of the biggest drivers of returns in the Montney has been the rapid improvements in new well productivity, Young noted. “Currently, it’s two years behind the Permian but catching up fast,” he said. “The resource itself is very similar to the Permian. Price realizations are strong, and cash flows at the wellhead are competitive with the very best areas of the Permian.”

As an example of improved productivity, Young cited Montney wells costing slightly more than \$3.5 million that have shown 180-day production rates of more than 2,400 barrels of oil equivalent per day, with oil cuts of 40% and NGL cuts of 15%.

Bison has also bought “aggregators” of conventional production in Canada, who can typically purchase production from small mom-and-pop companies with long-lived, low-decline reserves for 4x or 5x cash flows, according to Young. In turn, Bison aims to own the E&P’s equity at a still lower multiple, given the “extreme dislocation we’re seeing.” One example is its investment in Journey Energy Inc. in Calgary.

“Journey can show very capital efficient growth, even though output is conventional,” he said. “There typically are remediation costs, but frequently you can add significant production for minimal costs. Journey’s cash flow is up almost three times from last year, while spending within cash flow.”

In the U.S., Bison has exposure to a number of basins. Although the Delaware is viewed as a “favored” basin—so not an obvious selection for a deep value manager—Bison does have exposure to the eastern side of the play near Ward and Pecos counties, Texas, through a heavily discounted, small-cap producer.

But deep value managers don’t compete with the crowd—admittedly, not hard in today’s oil and gas climate.

“We go where others aren’t,” said Young. “We like to buy names that are off the radar.” □

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