

Seismic reflections

Yet another US shale mega-deal

BHP's agreed acquisition of Petrohawk constitutes another very interesting deal in the US shale arena. The deal involves BHP paying \$12.1bn in cash for Petrohawk, which is one of a string of mid-tier US oil and gas stocks that have risen to prominence in recent years to develop the shale plays of the US Mid-Continent and southern states. BHP will also be assuming \$3.0bn in net debt resulting in an enterprise value of \$15.1bn. Petrohawk has a very sizeable resource base of 35tcf (5.8bnboe) spread across three plays: Eagle Ford (South Texas), Permian (West Texas) and Haynesville (Louisiana). These are all excellent addresses. The proven reserves are 3.4tcf (567mmboe). Production is currently highly significant at 950mmcfe/d or 158,000boe/d.

Acquisition points to upside potential

The key valuation parameters are as follows: price per 1P \$27/barrel, price per 3P \$2.6/barrel. The valuation basis for Petrohawk represents a slight discount to BHP's earlier deal this year for some Chesapeake assets. Compared with Marathon's recent \$3.5bn acquisition of the Hilcorp assets in the Eagle Ford which valued the prospective resources at \$8/barrel, the Petrohawk terms appear to represent a significant discount. The price per net acre at \$13,400 is also about half that of the Marathon-Hilcorp deal. Overall, we can probably say that BHP is paying a full price for Petrohawk bearing in mind that the premium to the share price of late is about 60%. BHP, however, like Exxon (XTO in 2009), Marathon and many others before it, clearly believes that there is huge development upside over the next few years in shale oil and gas assets in the US. As BHP has noted, development risk in the US shale plays is a lot less than in frontier deepwater zones, while exploration risk is for practical purposes non-existent. Over the next few years, shale development could well boost US oil production by more than 1.5mmb/d. Interestingly, Chesapeake recently suggested that the potential was 3mmb/d to 4mmb/d. This is perhaps the biggest story in oil and gas presently.

London exposure

The opportunities to play the US shale theme in the AIM-based sector are limited. The two key ones are Nighthawk (Denver Basin) and Empyrean (Eagle Ford). An ASX-listed concern, Texon Petroleum also has an interesting position in the Eagle Ford. For those seeking heavier duty exposure one answer is to buy a basket of US mid-tier and large independent plays.

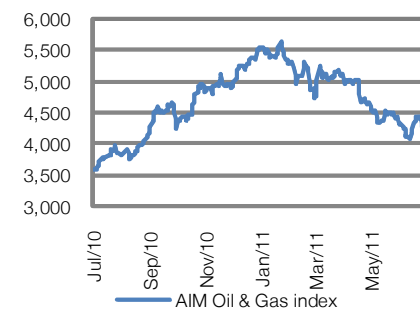
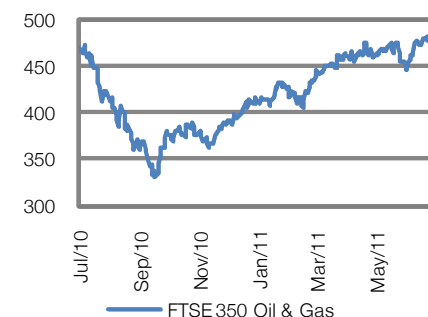
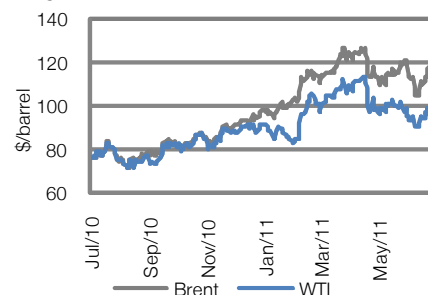
Note: We are publishing today a summary Seismic Reflections in response to BHP's announcement on its merger with Petrohawk.



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