

BN Painted Pony Seen Luring Suitors in LNG Race: Corporate Canada
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By Rebecca Penty and Divya Balji

Aug. 5 (Bloomberg) -- The race to build natural gas export terminals on Canada's Pacific Coast is inspiring another competition as producers including Painted Pony Petroleum Ltd. position themselves as potential takeover targets.

Developers of the gas-rich Montney shale that straddles Alberta and British Columbia are among the best-performing Canadian energy stocks this year, including Painted Pony, Crew Energy Inc. and Birchcliff Energy Ltd. Regulators estimate the Montney, the supply source closest to the sites of proposed LNG terminals, contains 145 years worth of Canadian gas consumption.

As oil majors from BG Group Plc to Royal Dutch Shell Plc prepare to decide on multibillion-dollar LNG facilities in Canada, the Calgary-based producers are standing out as prospective suppliers. Petrolia Nacional Bhd. plans to decide this year whether to build its terminal, one of more than a dozen being considered to ship Canadian gas to Asian markets.

"These companies are trying to clean themselves up to be the most attractive to these potential LNG players," Jeremy McCrea, an analyst at AltaCorp Capital Inc. in Calgary, said in a July 25 phone interview.

Painted Pony last month said it's selling Saskatchewan oil properties to become a "pure-play" Montney producer. Cequence Energy Ltd. created a "Montney focused company," by agreeing to sell gas properties in the Ansell area of Alberta, the company said in June. Crew is trying to sell its Princess oil property in Alberta and is budgeting most of its capital spending this year on the Montney.

Top Performers

Montney-focused producers comprise three of the top five Canadian energy stocks of 2014, even as North American gas prices have fallen in recent weeks on a cooler-than-expected summer, paring some of the gains. Painted Pony is second on the Standard & Poor's/TSX Energy Index, with a 64 percent rise this year, data compiled by Bloomberg show. Crew is third, with a 54 percent gain, and Birchcliff is fourth after surging 51 percent.

Painted Pony rose 0.7 percent to C\$11.47 at 10:26 a.m. in Toronto today.

The Montney producers have been aided by advances in drilling that are making wells profitable sooner, as well as North American gas prices that have increased about 15 percent from a year ago. Companies are now recouping costs on Montney wells in less than a year in some cases, compared with 24 months previously, McCrea said.

The Montney-focused companies best poised to be considered for a takeover, based on proximity to potential LNG plants and quality of the gas resource, are Painted Pony and Crew, McCrea said. While farther from the Pacific Coast, NuVista Energy Ltd., Advantage Oil & Gas Ltd., Birchcliff and Kelt Exploration Ltd. are also prospects, he said.

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Petronas Bid

Purchases from LNG proponents in the Montney have already occurred. Petrolia Nacional, known as Petronas, acquired Progress Energy Resources Corp. in 2012 to secure a vast shale position and last year bought additional land from Talisman Energy Inc. Exxon Mobil Corp., which also is proposing an LNG terminal, acquired Celtic Exploration Ltd. last year in part for its Montney holdings.

Some of the LNG terminal proponents don't have Canadian gas assets, including BG and Woodside Petroleum Ltd.

LNG development is far from certain, with no decisions to date on whether any proposed terminals will be built.

Apache Corp. on July 31 said it would exit the Chevron Corp.-led Kitimat LNG project, the first to have received a permit to export the fuel from Canadian regulators in 2011. Apache's departure adds challenges to a project that has faced prior delays with ownership changes. Chevron said Aug. 1 that it will seek a new partner.

Three Projects

Only two or three LNG export terminals will probably be built in Canada, said John Stephenson, portfolio manager and chief executive officer of Stephenson & Co. in Toronto.

"There's no question they need more gas," Stephenson said, referring to the terminal proponents. He called it a "poorly kept secret" that some Montney producers are setting themselves up to be taken out. "Others just see it as possible upside."

There are no takeover premiums built into Montney stocks, partly because no LNG proponent has made a final decision to proceed, Birchcliff CEO Jeffery Tonken said in an interview. Birchcliff's pitch to investors currently is that it's a low-cost producer with big production growth from consistent drilling, he said.

"We believe that down the road someone's going to try to buy the resource, no doubt," Tonken said. "But a person who invests in our company should make money just because the business is good."

The sale of Painted Pony is a probable outcome and not part of the company's business plan, CEO Patrick Ward said in an interview.

"We've met with, over the last four years, a number of LNG players," Ward said. "A lot of these projects are still a little ways off."

Crew CEO Dale Shwed and David Wilson, CEO of Kelt, declined to comment. Andy Mah, CEO of Advantage Oil & Gas, and NuVista CEO Jonathan Wright, didn't return messages.

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