

Seeking Alpha α

Petrohawk Buyout Puts Bakken and Eagle Ford Mid-Caps in Play

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BHP Billiton ([BHP](#)) [agreed](#) to pay \$15B (\$12B in cash and \$3B in assumed debt) for Petrohawk ([HK](#)) on Thursday. This amounted to \$37.25/share, a huge premium given HK closed Thursday at \$23.49/share. This effectively raises the prices on all of the oil leases in the major oil shale plays. HK had its acreage spread between the Haynesville, the Eagle Ford, and the Permian Basin. Most of its assets were in natural gas.

This buyout makes oil leases in these areas more expensive, that demand for these leases is going up, and that many small- and mid-cap leaseholders in the most desirable plays, the Bakken and the Eagle Ford, are in play. Any or all of these companies could soon become the target of a buyout by a bigger company. Given the approximate 50% premium to the stock price that BHP just paid for HK, it likely means these companies are going to be bid up by the market in the near future. With this deal and the recent Marathon deal for Eagle Ford acres, the going price for Eagle Ford leases seems to be about \$20,000 per acre. This is a huge premium to the price those acres commanded just a few years ago. It means the Bakken acres are in the same boat (and perhaps others as well) and that the Price/Book ratios of almost all of the players are too low, and that is before any oil has been definitely "proven" to exist beneath those acres.

There are myriad companies exploring in these two prolific areas. A few that might be attractive buyout targets are SM Energy Company ([SM](#)), Newfield Exploration Company ([NFX](#)), Whiting Petroleum Corporation ([WLL](#)), and Rosetta Resources Inc. ([ROSE](#)). SM has 204,000 net acres in the Bakken and 250,000 net acres in the Eagle Ford and has near term plans to sell some of its Eagle Ford acreage. This would leave it with approximately 196,000 net acres in the Eagle Ford. NFX has 174,000 net acres in the ND and MT Bakken, 260,000 net acres in the Alberta Basin (Bakken), and 335,000 net acres in the Eagle Ford. WLL has 603,702 net acres in the Bakken and no position in the Eagle Ford. ROSE has 300,000 net acres in the Bakken and 64,000 net acres in the Eagle Ford.

These companies might well draw your attention as standalone investments. However, with the added incentive of possible or even likely buyouts by bigger players, they will be that much more attractive; and their share prices will be bid up that much farther. The table below holds some of the fundamental financial data about these stocks. It is from TDameritrade and Yahoo Finance.

Stock	SM	NFX	WLL	ROSE
Net Bakken acres	204,000	434,000	603,702	300,000
Net Eagle Ford acres	250,000 or soon 196,000	335,000	0	64,000
Value of Bakken and Eagle Ford net acres at \$20,000/acre	\$9.08B	\$15.38B	\$12.074B	\$7.28B
Market Cap	\$4.59B	\$8.85B	\$6.51B	\$2.71B
Enterprise Value	\$5.10B	\$11.38B	\$7.60B	
Price	\$72.14	\$66.90	\$55.50	\$52.20
1 yr. Analysts Target Price	\$80.46	\$84.82	\$77.54	\$56.53
PE	89.28	34.22	29.55	118.37
FPE	21.02	10.81	10.42	15.91
Avg. Analysts' Opinion	2.1	2.1	1.9	1.9
Price/Book	3.84	2.7	2.56	5.31

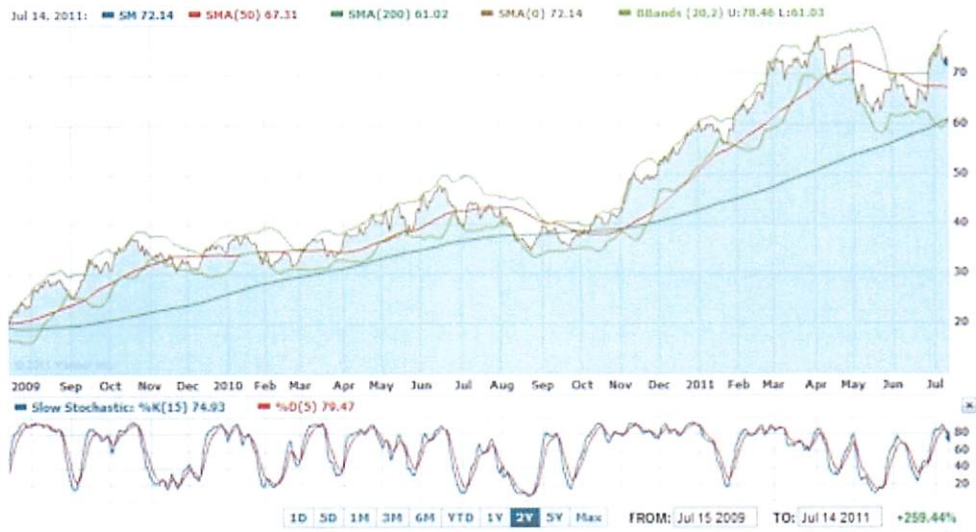
Price/Cash Flow	11.2	9.73	10.58	18.68
EPS Growth Estimate for This Year	51.80%	8.60%	55.40%	221.40%
EPS Growth Estimate for Next Year	64.90%	21.80%	26.40%	82.20%
5 yr. EPS Growth Estimate per annum	23.95%	10.80%	18.83%	22.50%
Beta	1.62	1.58	2.08	2.24
Short Interest as a % of Float	4.56%	2.49%	3.73%	8.06%
Cash per Share (mrq)	\$3.01	\$0.42	\$0.04	\$1.58
Total Debt/Total Capital (mrq)	34.12%	42.18%	27.75%	40.45%
Quick Ratio (mrq)	--	0.66	--	--
Interest Coverage (mrq)	0.7	0.87	1.22	3.54
Return on Equity (ttm)	4.45%	8.25%	8.66%	4.40%
EPS Growth (mrq)	-114.88%	-106.97%	-77.81%	49.67%
EPS Growth (ttm)	-54.91%	-34.31%	145,276.90%	-14.75%
Revenue Growth (mrq)	-12.44%	19.00%	23.05%	38.38%
Revenue Growth (ttm)	5.53%	28.43%	36.88%	17.81%
Annual Dividend Rate	\$0.10	--	--	--
Gross Profit Margin (ttm)	78.46%	82.13%	82.12%	80.56%
Operating Profit Margin (ttm)	10.60%	31.32%	27.18%	23.20%
Net Profit Margin (ttm)	4.98%	13.30%	16.87%	6.90%

The combined net acreage in the Bakken and the Eagle Ford times \$20,000/acre works out to approximately double the market cap of each of the stocks above, without considering the acreage they may own in other areas. For instance, NFX owns substantial acreage in the Rocky Mountains, 350,000 net acres in the Gulf of Mexico, 48,000 net acres in Granite Wash, acreage in the Woodford shale. NFX is clearly worth a lot more than its market cap. The others are too. Plus all of those figures have been calculated before most of the oil and gas has been proven. Those figures could multiply several fold once the fields of owned acreage are proven. This means that all of the above companies are good investments compared to their liquidation values. They could be stupendous values once their holdings have been turned into proven reserves. Recent purchases by CNOOC ([CEO](#)), Marathon ([MRO](#)), and BHP have put the above mid-caps in play. I would expect to see their share prices rise, even without substantial development. Of course, these companies are all doing substantial development. The possibilities for profits are enticing.

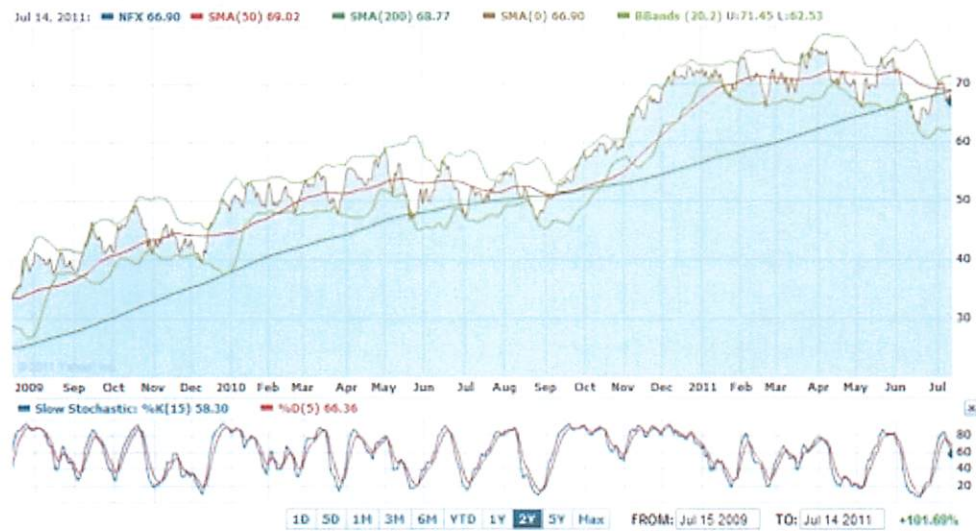
Now let's look at the technicals for these stocks via their two-year charts.

[Click all to enlarge]

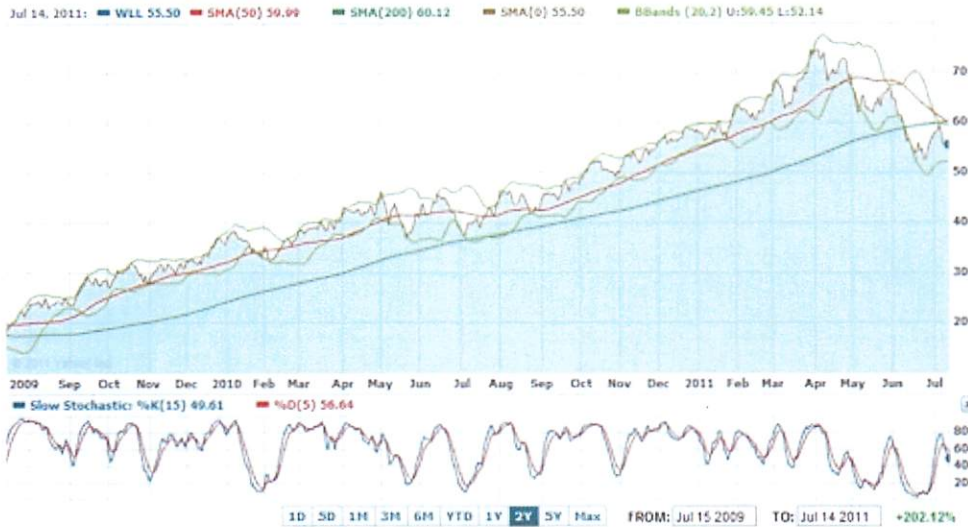
SM:



NFX:



WLL:



ROSE:



These charts all show strong uptrends. They also show that these stocks are generally over bought. If you want to be safe, you could put off buying them, or you could sell August out-of-the-money puts on them. Either strategy might well make you richer than purchasing them now. However, if you believe that their prolific field holdings are going to make them successful, you may not wish to wait. You may simply acknowledge that they are now in play. They may spike up, and you would be left without them.

Further, you should keep in mind that the negative credit rating announcements of the last couple of weeks are likely to push the market down. Google (GOOG) and JP Morgan (JPM) beat Thursday, but I am not sure those results can be relied on to push the market up. You also need to consider that all of the above companies have money problems. If there is a severe downturn, they may have trouble raising the money they need to keep going. This kind of stock often gets crushed in a severe downturn. The EU credit crisis could bring on just such a downturn. Yes, the stock(s) would eventually rebound, but the interim might be very painful indeed. You don't want to bet the farm on any one (or all) of these. However, an appropriate level of investment seems warranted. Legging in is usually a good strategy.

Disclosure: I have no positions in any stocks mentioned, but may initiate a long position in NFX, WLL, SM, ROSE over the next 72 hours.