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EXCO Inks Appalachian JV

by Eric Chenoweth, CFA | 05-10-10 | 4:36PM

On Monday, EXCO Resources announced plans for a joint venture to develop its Appalachian assets with BG Group . This is a long-awaited deal that serves to accelerate EXCO's development of its Pennsylvania Marcellus Shale acreage while reducing EXCO's financing burden to do so. EXCO receives \$950 million (\$800 million in cash at closing and \$150 million in drilling carries) for a 50% stake in its 654,000 net acres in Appalachia (of which 186,000 acres are prospective for the Marcellus Shale). Assuming a \$2/mcfe value for 50% of EXCO's 265 bcfe in proved reserves associated with the properties (or \$265 million), and further assuming all additional deal value is in the 50% stake in the 186,000 Marcellus Shale prospective acres, the per acre valuation of the Marcellus Shale component of the deal is roughly \$7,366/acre. Although this \$7,366 value seems low when compared to some of the recent deals that have fetched \$14,000/acre and higher, we think the EXCO acreage package appears less concentrated in the most attractive portions of the Marcellus play (as we currently understand it) than some of these other higher-priced deals.

Much like the Atlas/Reliance JV, the two companies plan to accelerate drilling and purchase additional acreage. In fact, on its conference call, EXCO noted it has already been acquiring new acreage for the JV. Given this JV is the second between EXCO and BG Group (the first one was in the Haynesville Shale), we think it could possibly indicate a deeper relationship further down the road for the two companies. As it stands, EXCO benefits from BG's financial support and midstream & marketing expertise (which will be crucial for success in the Marcellus Shale).

By reducing net debt to under \$550 million, this deal further improves EXCO's once highly leveraged balance sheet, and caps a long string of liquidity-improving moves made by EXCO over the past year.

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