PetroQuest Shares Fall on Acquisition Plans

The Associated Press

(AP) — Shares of PetroQuest Energy Inc. fell Thursday after the company said it planned to buy a shallow water property in the Gulf of Mexico for $193 million.

THE SPARK: PetroQuest announced after the market closed Wednesday that it will buy the property from private companies in a deal that will close in July.

THE BIG PICTURE: PetroQuest, an oil and gas company based in Layfayette, La., said the property is located around its existing shallow water Gulf of Mexico properties and operations.

These assets produced, on average, about 1,100 barrels of oil per day and 19 million cubic feet of gas per day during May.

The company has secured $185 million in bridge loan commitments and is looking at its permanent financing options for the deal. The company said it will also increase the borrowing base on its secured bank credit facility to $200 million from $150 million.

THE ANALYSIS: While the deal is expected to significantly increase PetroQuest's oil production and prove profitable in the near term, investors are leery of sinking money in the Gulf of Mexico.

Sterne Agee analyst Tim Rezvan said that investors these days don't appreciate Gulf of Mexico assets as the industry preference is to move onshore, where liabilities and risks for gas and oil drilling are lower. And many investors are also averse to increased leverage, especially in today's economic environment where lending rates are increasing.

PetroQuest said that because of their age and design, the risk of hurricane damage to the wells is minimal and they have many more years of production ahead. So the company isn't worried about significant near-term liability with the acquisition.

Analyst Rezvan said the acquisition is "transformative" and will dramatically increase the company's cash flow in 2014. He also said it doesn't require much capital for updates, allowing PetroQuest to put cash back into low-risk resource investments.

SHARE ACTION: Down 45 cents, or 10 percent, to $4.05 in afternoon trading, amid a broad market decline. The stock has traded in a 52-week range of $3.55 to $7.05.

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