

TIP SHEET: Westport Resources Sees Opportunity In Oil Patch

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Although the slumping economy has dealt a severe blow to energy prices, Westport Resources isn't shying away from the oil and gas sector.

The Westport, Conn., wealth-management company, which offers separately managed investment accounts for individuals and institutions, sees strong growth potential for several energy players. The firm was founded in 1986 and has about \$700 million under management.

Westport's Special Income Portfolio invests in corporate bonds of several energy companies. The portfolio's compounded annual return was 7.85% over the past 10 years as of June 30, surpassing the Merrill Lynch High Yield Bond Index, which returned 4.72%.

Westport focuses on companies that have been able to grow their oil and gas reserves without making acquisitions, which can damage balance sheets, said Joe **Tatusko**, the firm's chief investment officer. The firm also prefers companies that produce more crude oil than natural gas.

"There's substantially more price volatility in natural gas," **Tatusko** said. "We have an overabundance of natural gas right now, owing to new drilling technologies implemented in the last five or six years, and that's damped gas prices."

Westport also steers clear of companies with extensive refining operations. Tumbling energy prices and weak demand worldwide have made it difficult for refiners to turn a profit.

The firm leans toward companies with a North American focus. Companies with a large percentage of oil and gas reserves in developing countries are vulnerable to political upheaval, **Tatusko** said. Rebel groups in Nigeria, for example, periodically sabotage oil and gas infrastructure, even holding employees of foreign companies hostage.

Among Westport's investments is Apache Corp. (APA), a Houston oil and gas exploration and production company. The company's oil reserves are mostly from five North American regions: the Gulf of Mexico, the Gulf Coast of Texas and Louisiana, the Permian Basin in West Texas, the Anadarko Basin in Oklahoma and Canada's Western Sedimentary Basin.

"Over half their revenue is from North America, and they have low debt," **Tatusko** said. The company's debt as a percentage of its total capitalization is about 25%. Apache has implemented several cost-control measures in 2009, reducing staff and taking steps to lower production costs.

Apache's oil and gas production has grown 6.5% over the past year, and its second-quarter earnings outpaced analysts' expectations.

Westport also likes Anadarko Petroleum Corp. (APC), an oil and gas producer based in Woodlands, Texas. More than 70% of the company's reserves are in the continental U.S.

"They have a true North American focus," **Tatusko** said.

Anadarko's total average daily production was 617,000 barrels of oil equivalent a day in the second quarter, a 12.5% increase over last year. The company has successfully drilled exploratory oil wells in the Gulf of Mexico.

A third oil and gas company in Westport's lineup is Occidental Petroleum Corp. (OXY), a Los Angeles company that specializes in enhanced oil recovery, which encompasses a number of techniques for increasing the amount of crude oil that can be extracted from an oil field. Last month, the company announced a potentially large oil discovery in Kern County, Calif.

"Occidental is an almost 100% North American play," **Tatusko** said. "They're very well positioned."

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