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Confident in oilsands growth, Waterous Energy Fund closes two deals

'There is growth in the future of the oilsands,' Adam Waterous said in an interview

Some onlookers still discount the oilsands as a high-cost, high-carbon source of energy facing a no-growth future, even with the return of higher oil prices — but don't tell Adam Waterous that.

"I am not buying it," Waterous said in an interview Monday.

"What I am buying is that it's the most economic (oil), it is reducing its carbon intensity the fastest, and it has the world's leading social and governance (standards)."

Through a series of moves in the past five years, Waterous Energy Fund has grown Strathcona Resources Ltd. into one of the largest private equity-backed petroleum producers in North America.

Strathcona, owned by Waterous Energy Fund and Strathcona employees, is now pumping out about 110,000 barrels of oil equivalent (boe) per day, with a sizeable chunk coming from the oilsands.

On Monday, Waterous Energy Fund announced it has closed the amalgamation of Strathcona with Caltex Resources and completed the previously announced acquisition of the Tucker thermal oilsands asset from Cenovus Energy — and has plans for the future.

"There is growth in the future of the oilsands," Waterous said.

"Its underlying economics remain compelling on a global basis … Sometimes there is this narrative, 'Oh well, this is high-cost oil and that can't compete.' That is not our analysis."

Waterous, who founded the fund in 2017, also believes the carbon intensity of the oilsands will continue to fall — and at a faster rate than U.S. shale oil, given Alberta's geology and the ability to capture carbon emissions and store them underground.

Finally, he said the amount of oil in the hands of free-market companies — not state-owned enterprises — will shrink in the coming decade, meaning the oilsands will gain greater importance as a stable source of supply.

These trends will propel Canadian oil production from four million barrels per day to about five million by 2030, he projected.

The expansion by Strathcona comes as the oil and gas industry has shifted into a period of higher prices, rising geopolitical tensions with Russia's invasion of Ukraine, and renewed concerns over energy security. Questions about future demand also continue to percolate as the energy transition accelerates.

On Monday, prices for benchmark West Texas Intermediate (WTI) crude fell $6.32 to close at US$103.01 a barrel, having surged above $128 a barrel last week.

With the U.S. banning Russian oil imports last week, U.S. Energy Secretary Jennifer Granholm has called on the American petroleum sector to boost output.

Canada is the largest supplier of foreign oil to the United States. Even with high global prices and concerns about the security of energy supply, there is still a perception in some circles about the future of the oilsands to increase output.

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“I think non-Canadians would say oilsands are high cost, high carbon and this is going to be the first (barrel) to go,” said Mark Oberstoetter, a director at energy consultancy Wood Mackenzie, noting the Canadian sector did see production curtailment during low prices but also showed resiliency coming back.

“The flip side of the story is no matter what jurisdiction we’re in, we are looking for barrels to replace Russian supply.”

The U.S. imported about 670,000 barrels of oil and other petroleum products per day from Russia last year.

It’s telling that as the U.S. is reportedly eyeing more barrels coming from countries such as Venezuela to fill the gap of Russian oil, the Biden administration hasn’t said much about turning north for more oil.

“I don’t think the views have changed that much, at least from the U.S. perspective, because Biden cancelled Keystone XL’s permit on Day 1 of getting into office,” said analyst Phil Skolnick of Eight Capital in New York.

Skolnick believes attitudes could shift if oilsands operators continue to make progress reducing emissions per barrel, or if major producers proceed with a large carbon capture and storage project as they move to reach net-zero emissions by 2050.

From an investment point of view, Skolnick thinks more pipeline capacity will also be required before oilsands companies give the green light to major new developments.

Experts and oilsands operators say smaller projects and expansions will deliver future production increases in Canada in the coming years, not massive multi-year projects.

From Strathcona’s perspective, there is growth on the horizon.

In mid-December, it bought the Tucker thermal oilsands asset from Cenovus Energy for $800 million. Tucker produces about 19,000 barrels per day (bpd), while Caltex pumps out about 13,000 bpd of heavy oil in Alberta and Saskatchewan.

In 2019, Strathcona acquired Pengrowth Energy Corp., bought Osum Oil Sands Corp. in 2020, and snapped up assets in the Montney formation last July.

Rafi Tahmazian, a senior portfolio manager at Canoe Financial, said Strathcona has developed the necessary scale to drive costs down and, during a period of inflation, keep a handle on expenses.

It was also willing to buy assets when others were exiting the sector, understanding the world still needs fossil fuels and the oilsands provide a long-life resource base, he said.

“Strathcona has stepped into where there’s a gap, to be a consolidator of smaller and mid-sized assets,” added Oberstoetter.

Strathcona now has about 450 employees. Oilsands production makes up about 50,000 bpd of its output, with another 25,000 bpd coming from heavy oil operations, said company CEO Rob Morgan.

“What we like about the acquisitions we’ve done is they come with established infrastructure so … there are some small investments we can make and basically boost output,” Morgan said.

“We have about 10,000 barrels per day we might grow across into 2023, and perhaps another 10,000 a day of those similar opportunities we’d grow beyond that.”