CURZIO
VENTURE OPPORTUNITIES

THE SECRET TO MAKING A FORTUNE IN THE OIL INDUSTRY

Quick Overview:

We are experiencing another oil boom in this major shale region. The rig count is exploding higher... the majors are investing tens of billions of dollars to buy acreage... and production is going through the roof...

CURZIO RESEARCH

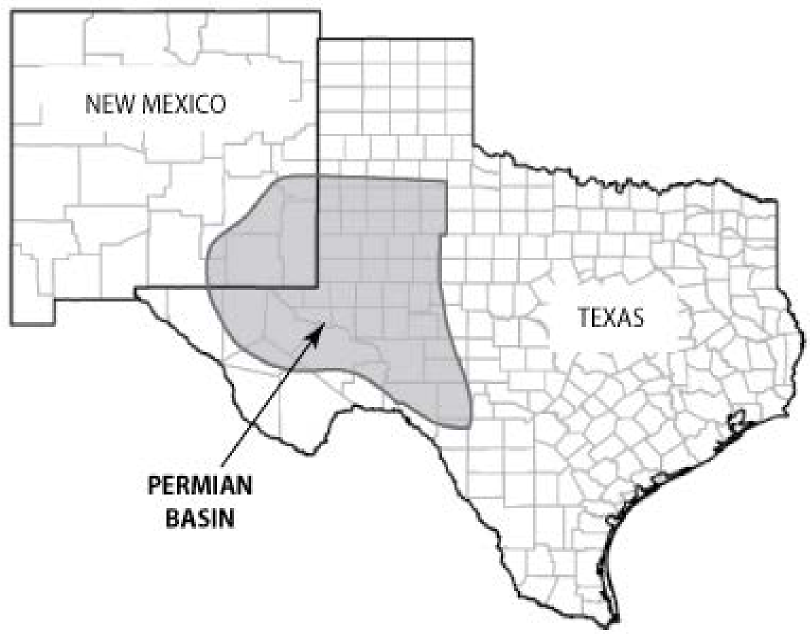
"I almost lost everything," Cactus told me.

If you're a longtime follower of my research, you probably heard me mention the name Cactus Schroeder a few times.

Cactus has been discovering oilfields in Texas for more than four decades. He's had personal interests *in over 1,000 drilling projects*. One of those projects was the biggest oil-producing well in the state in 2011 (he made a small fortune when it was sold to oil giants Statoil and Talisman Energy for over $1 billion).

Today, Cactus has his own office in Abilene, a small city in central Texas. It has a population of about 120,000. And it's located just a few miles drive from the Permian Basin.

The Permian Basin is home to one of the largest oil fields in the world. The rock formation is 250 miles wide by 300 miles long, covering dozens of counties in Texas and New Mexico (pictured below).



Source: ShaleSource.com

Cactus and I drove through almost every one of these counties in 2013 in his dirt-covered Chevrolet Silverado (more on this later).

He shared many stories during the trip, including the history of the Permian Basin… The best places to drill for oil…The new technologies being used to unlock oil… And about the many ups and downs he experienced during his oil drilling career.

Cactus told me…

> *Things were not always rosy. In 1986, I almost lost everything. Oil prices collapsed from over $30 a barrel to under $10. Most of my close friends in the oil industry lost their businesses. I had to put my house up for sale.*
>
> *Times were also tough in 1993 and then in 1999. Most people were becoming millionaires overnight buying Internet stocks. Few people remember that oil prices collapsed from over $25 a barrel to $11 before rebounding.*

CURZIO RESEARCH

Cactus learned a lot living through these "boom and bust" cycles. He said the reason he survived was mostly due to this one secret... *learning how to invest in the right real estate.*

You see, the Permian Basin is a big place. And not every area is producing huge amounts of oil. In fact, there are fewer "pay zones" – or layers that produce massive amounts of oil in some northern and far west counties (*will explain more about pay zones later*).

And most energy companies operating in these counties will not make much money producing oil.

Cactus told me that oil prices could move up 25%... or down 25%. Yet, if you are drilling for oil in the right real estate, there's a good chance you will make a lot of money in the oil drilling industry.

And Cactus knows everything about the real estate in every area he drills...

I saw this firsthand with the dozens of maps spread out along the walls on the second floor of his Abilene office. He calls this area "The War Room." That's where Cactus pays close attention to which companies are drilling, where they're drilling, and exactly when they hit dry holes or oil gushers.

For example, Cactus drove me to one of the prime areas within the Permian. He showed me where Pioneer Natural Resources and EOG Resources were producing tons of oil. It's no surprise these companies became two of the largest oil shale producers in the world.

Unfortunately, Pioneer and EOG fell on some tough times over the next few years. That's because oil prices crashed *nearly 70%* from mid-2014 through 2016. Drilling activity came to a grinding halt in the Permian as most companies could not make money drilling for oil with sub-$40 oil prices.

Today, there is a resurgence taking place in the Permian...

Some of the largest energy companies, including ExxonMobil, Chevron, Apache, and Encana, are buying up property like crazy in the Permian. In fact, the industry spent <u>more than $28 billion</u> to acquire land in the Permian last year... *That was more than triple what they spent in 2015.*

CURZIO RESEARCH

Many of these land purchases took place in the same "sweet spot" Cactus drove me to in 2013.

In fact, one oil company just acquired 25,000 acres, more than doubling its stake in the oil-gushing region. Only a few news outlets talked about this purchase. This company is small… and most investors would rather read stories about multi-billion dollar oil giants like Exxon or Chevron.

That's great news for us… We have an opportunity to buy this small-cap oil company before mainstream media learns about it. And best of all… shares are trading at a dirt-cheap price.

The stock is still down about 70% from its 2014 highs, despite oil prices nearly doubling from their July 2016 lows. But management restructured operations, cut costs, and has *over $1 billion* in liquidity, which will be used to drill hundreds of wells in the sweet spot within the Permian.

Based on my estimates, the stock has at least 100% upside potential over the next 6-12 months. Longer-term, if oil prices continue to push higher, the stock could triple the returns of investors who buy today.

To give you a better understanding of this opportunity, I first need to explain why oil companies are coming back in droves to buy property in the most prolific shale oil region in the world.

MY DRIVE THROUGH THE PERMIAN BASIN WITH CACTUS SCHROEDER

"This place used to be a ghost town," Cactus told me as we drove through Glasscock.

Glasscock is a rural county in West Texas. It has a population of less than 1,300. It's spread across 900 square miles – which is smaller than Rhode Island.

In 2011, the main town only had one convenience store and one restaurant. Few cars were ever on the roads.

That changed dramatically over the next few years.

You see, despite Glasscock County's small size, some of the largest oil and gas companies were scrambling to buy every acre of land here. This created a major wealth boom in the community…

The convenience store is busier than ever. More restaurants opened for business, and portable taco stands and burrito wagons lined the streets to feed oilfield workers. RV camps are popping up everywhere – since there are few hotels for workers to stay.

Traffic has grown so much that Glasscock recently installed its first traffic light.

Glasscock became a boom town because it sits right above the "sweet spot" in the Permian Basin, a place Cactus calls "*one of the greatest shale areas this country has ever seen*."

In 1921, the first oil well was drilled in the Permian. Since then, over 29 billion barrels of oil have been produced in the Basin. At today's prices, that oil would be worth *more than $1.5 trillion.*

The good news is – according to the United States Geological Survey (USGS) – <u>there are another 43 billion barrels of undiscovered oil in the Permian Basin</u>. To put this in perspective, if the Permian was a country, it would be ranked as the 15th largest in terms of oil reserves – just behind Qatar and Kazakhstan.

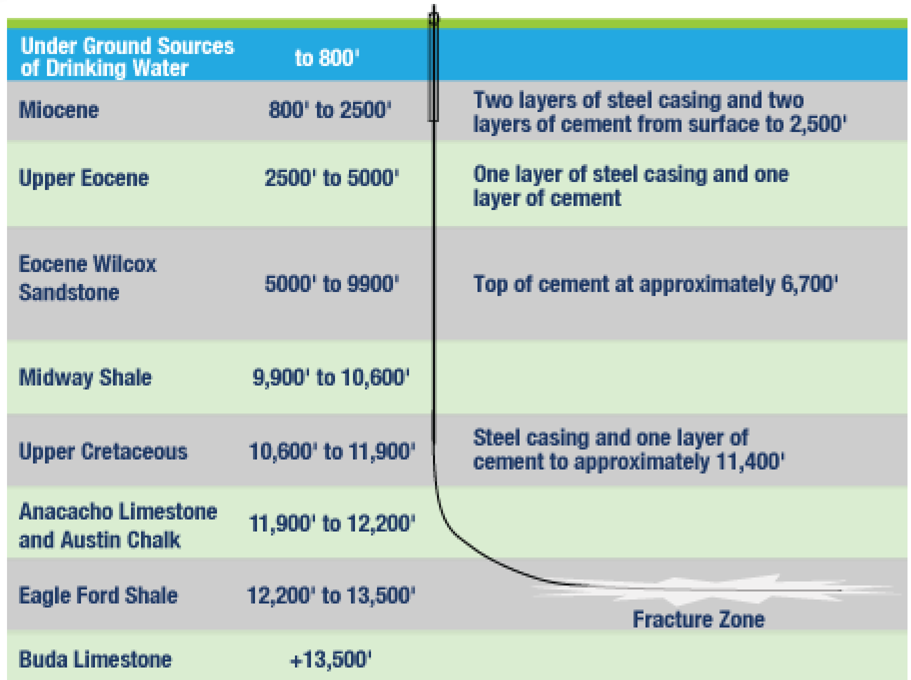
There's a reason why the Permian Basin is one of the most prolific shale producing areas in the world…

You see, most shale areas have one "pay zone." That's an underground area where most of the oil lies. For example, the Eagle Ford has a pay zone that's about 300 feet wide.

To tap this oil, companies would drill more than 12,000 feet vertically… then drill horizontally within this 300-foot space (pictured below). The driller would then inject liquid at super-high pressures to breakopen the rock to extract oil. This is known as hydraulic fracturing, or "fracking."

CURZIO RESEARCH

Stratigraphical Look at Eagle Ford Well

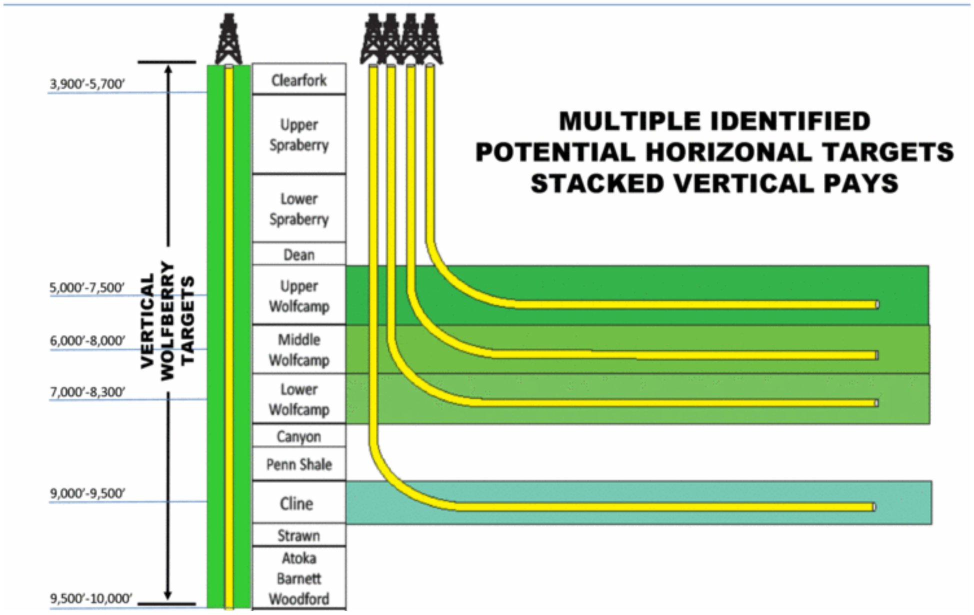


Source: Petrohawk

In the Permian Basin, there are multiple pay zones. They include the Sprayberry, Wolfcamp, Pennsylvanian (Penn), and Cline Shales to name a few... Each of these pay zones holds *billions of barrels of oil reserves.*

This means oil companies with acreage in the Permian can target multiple zones from a single well (pictured below). They can drill anywhere between 3,900 feet to 10,000 feet to find oil – *on the same property.*

PERMIAN BASIN: TARGETS OF OPPORTUNITY



Source: Laredo Petroleum presentation

Pioneer Natural Resources is one of the largest property owners in the Permian. In July, legendary oilman and former CEO Scott Sheffield talked about the importance of these pay zones. He said…

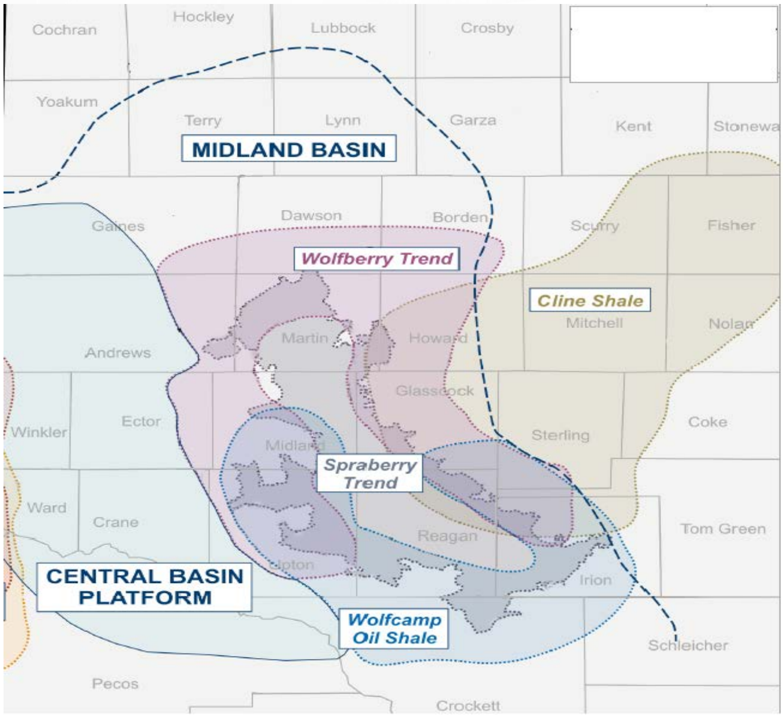
> *The Permian is the mother lode. You factor in 4,000 feet of shales with 12 to 14 zones to play with… We'll be drilling that for the next 100, 150 years.*

As you can see, the Permian Basin still has enormous drilling potential. It's one of the prime areas for oil companies to find massive amounts of oil.

Getting back to Glasscock…

Glasscock was one of four counties Cactus and I visited that lie in the "sweet spot" within the Permian. The other counties include Midland, Howard, and Martin.

I call this area the sweet spot because they are located within the Midland Basin. As you can see from the map below, the Sprayberry, Wolfberry, and Cline Shale pay zones are underneath these counties.



Source: ShaleExperts.com

This simply means… oil companies who own acreage in these four counties can drill into the Sprayberry, Wolfberry, and Cline pay zones. Yet, if you own property in Borden County (just north of Howard County on the map)… you would only have access to one pay zone (Wolfberry).

This is incredibly important to understand…

The Wolfberry and Sprayberry are estimated to hold *tens of billions of barrels of oil.* Plus, it's much easier to drill in these shale areas since they are a combined *4,000 feet wide.* Remember, the Eagle Ford Shale formation is only 300 feet wide. That gives you more than 10x the space to find oil.

The cost of drilling in these areas is also much cheaper. For example, in the Eagle Ford and Bakken, the breakeven cost for drillers is about $55 a barrel. Yet the breakeven cost to drill in these four Permian counties is *under $35.* That's significant, given that oil prices are trading around $53 today.

CURZIO RESEARCH

That explains why the rig count in the Permian is surging over the past nine months, compared to the Eagle Ford and Bakken...

Source: OilPrice.com

It also explains why some of the largest oil companies in the world have become big property owners in these four counties. The list of oil giants includes: *ExxonMobil (XTO Energy), ConocoPhillips, Chevron, Encana, Pioneer Natural Resources, Diamondback, Cabot Oil & Gas, Apache and Anadarko Petroleum.*

However, there is one oil company that's missing from this list...

It's called **SM Energy (SM).**

This small-cap oil company just bought 25,000 acres in Howard County. Howard is ranked as the No. 1 county in the Permian Basin based on production per well. After this purchase, SM Energy now owns more than 87,000 acres in the Permian sweet spot.

And here's how the company plans on making a fortune on their investment...

MAKE THREE TIMES YOUR MONEY IN THE "PARK AVENUE" OF OIL FIELDS

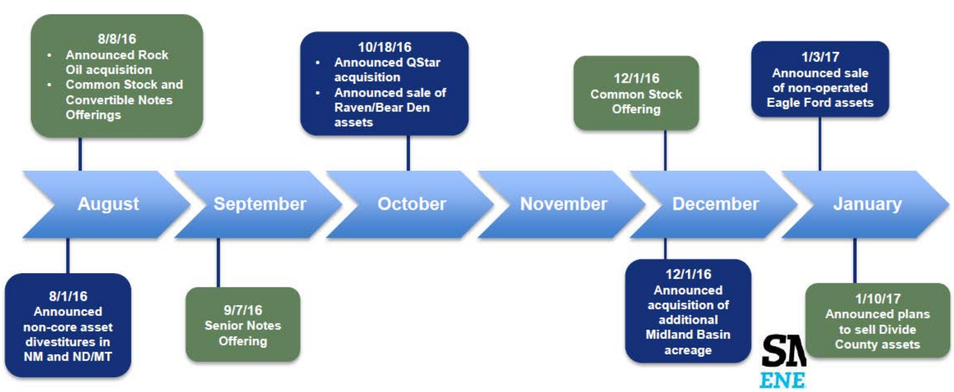
SM Energy is an independent oil and gas company. It was founded over 100 years ago – surviving the numerous boom and bust cycles that take place often in the energy industry. The company's top-tier assets are located in the Permian Basin and the Eagle Ford in Texas.

As of December 31, 2016, SM Energy had 395 million barrels of oil equivalent. They also have working interests in over 1,500 oil and natural gas wells.

SM Energy Fundamentals (SM)			
Market Cap:	$2.7B	52 Week Hi-Low	$43.09-$12.90
Revenue (TTM):	$1.13B	Volume (3-Month Avg)	3.1M
Earnings (TTM)):	($9.90)	**Balance Sheet:**	
Operating Cash Flow:	$552M	Cash:	$9.3M
Price/Book:	1.09x	Long-Term Debt:	$2.8B

Management has been busy over the past seven months. The company has been selling off non-core assets, paying down debt, and extending its debt maturities.

These non-core divestures added up to $1.8 billion. SM Energy used this cash to purchase 65,000-plus acres in one of the biggest oil producing regions in the Permian Basin. Here's the short timeline of the company's recent transactions...



Source: SM Energy presentation

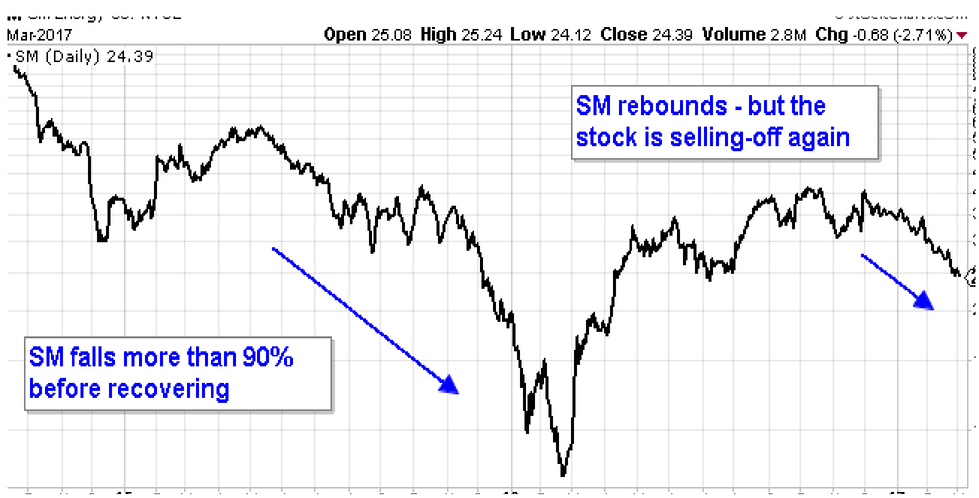
At first glance, SM Energy's financials looks scary.

The company is sitting on $2.8 billion in debt. That's a huge debt position for a company with a market-cap of just $2.7 billion. Plus, the company lost more than $9 a share over the past 12 months.

These numbers are enough to make most investors run to the exits. **But SM Energy is about to make one of the greatest comebacks in the history of the oil industry**...

SM used to own assets in the Williston Basin (part of the Bakken Shale) in North Dakota and the Eagle Ford in Texas (*sale of these assets is pending*). However, once oil prices crashed from mid-2014 through 2016, it was tough to drill in these regions and generate profits with sub-$40 oil prices.

That explains why the company nearly went bankrupt in early 2016. As you can see from the chart below, the stock fell more than 90% from over $80 a share into the single digits...



After restructuring its huge debt load and selling off most of its assets in the Williston Basin and Eagle Ford, the stock recovered. But shares started pulling back again, mostly because the company raised over $400 million in cash in a stock offering and spent $1.1 billion to purchase a large land position in the Permian Basin.

CURZIO RESEARCH

A common stock offering (also called a secondary offering) is when a public company issues more shares outstanding to raise cash. The increase in the share count creates dilution for shareholders. This means existing shareholders will own a smaller percentage of the company, making each share less valuable.

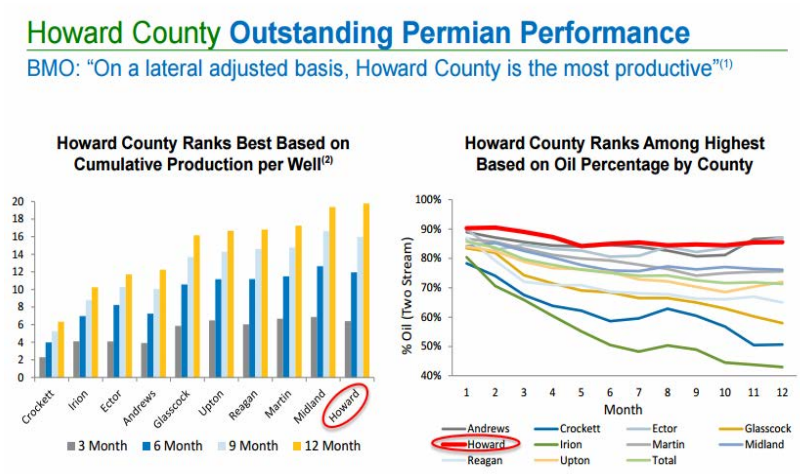
SM Energy spent $1.1 billion to purchase just 25,000 acres in the Permian. This amounts to $44,000 per acre. That's about double the average price paid for acreage in the Permian in 2014. That's why investors are running to the exits again.

But these sellers are making a big mistake… one we're about to capitalize on.

You see, the 25,000 acres SM Energy purchased increased their total Permian exposure to 87,850 net acres. Most of this acreage is located in Howard County.

Earlier, I mentioned how the biggest secret to making a fortune in the oil industry is by investing in the right real estate… Well, when it comes to real estate, Howard County is considered the Park Avenue of Oil Fields.

Howard County is ranked No. 1 in oil production per well in the Permian. It's also ranked among the highest based on percentage of oil found (over 80%) per well drilled - according to investment firm BMO. *(Some wells contain large percentages of natural gas, which is worth far less than oil).*



Source: SM Energy presentation

The rest of SM Energy's acreage is located in Martin County in the Permian. This is also among the top counties (ranked No. 3 in the graph above) in terms of oil production per well.

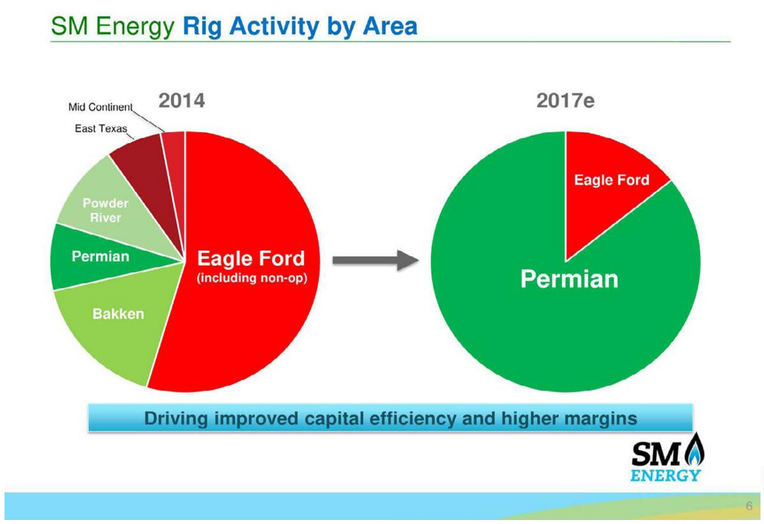
What does this all mean?

In the Permian Basin, oil companies are generating roughly 18% in profits for each well drilled. This is based on $50 oil prices (the current price of oil is near $53 today). That's an exceptional return given most companies drilling in the Eagle Ford and Bakken today are struggling to breakeven.

In Howard County, oil giants Encana and Diamondback are generating *more than 35% in profits* for each well drilled. This means oil companies with acreage in Howard County can make profits on their wells at sub-$30 a barrel oil prices.

Following SM Energy's recent acquisitions (and non-core asset sales), the company has become a near pure play on the Permian Basin. And nearly all of its acreage is located in two of the most prolific shale oil counties in America (Howard and Martin).

In 2017, SM is planning to spend $875 million to drill more than 100 wells. Most of this cash will be spent in Howard and Martin Counties in the Permian (*SM Energy's Permian rig activity for this year is pictured below).*



Source: SM Energy

In fact, the company already operates 10 of the top 40 wells in these areas – which are already generating huge cash flow.

Management expects operating margins to increase more than 80% over the next two years. And cash flow is expected to double to more than $1.1 billion over the same timeframe. These are huge numbers for a small-cap oil producer.

That's probably why the top insiders at the company recently bought $700 million worth of stock at an average price of $25.50 *(that's higher than where the stock is trading today).* These insiders include CEO Javan Ottoson, Executive VP Herbert S. Vogel, and two members who sit on the Board of Directors.

As for their enormous $2.8 billion debt pile… The company has done a great job extending these maturities. In fact, the SM Energy has zero debt maturities until 2021. That's five years from now.

To put this in perspective, SM is projected to generate more than $1 billion in annual cash flow starting in 2019. That means the company would be able to pay down its entire debt load by the time the time its first bonds mature *(just making a point here… most oil companies would use a bulk of this cash to drill and generate even more cash flow).*

Plus, SM has over $1 billion in liquidity right now. That money will be used to aggressively drill wells in the Permian, since they can generate huge returns right now with oil prices trading more than $50 a barrel.

In sum…

SM Energy is one of the best ways to get exposure to the massive drilling activity taking place in the Permian Basin. They are one of the lowest-cost producers and have most of their assets located in two counties where oil is profitable at sub-$30 oil prices.

CURZIO RESEARCH

The company will generate huge cash flow this year, which will be used to pay down its debt. Once Wall Street sees this massive transformation (which will take place during this year), shares will likely be trading at more than double the current price.

That's why it's important to buy shares today. By doing so, you'll own a stake before the mainstream media starts talking about the company. You will also be buying the stock at a cheaper price than what the top insiders at the company paid just a few weeks ago.

Action to take: Buy SM ENERGY (SM) under $26.00 a share. Once establishing a full position, set a 35% hard stop. The stock trades more than three million shares per day.
So you should have little trouble buying shares below our buy-up-to price.

Good investing,

Frank Curzio