

Oil Production Executive Summary

Problem

An oil and gas company was considering an opportunity to buy a 75% stake in an existing oil production operation. Valuation of the opportunity would include information about the future price of oil and uncertain variable operating expenses, as well as future options of divestment or buyout of the remaining 25% interest. A spreadsheet valuation model was constructed, but omitted or approximated available information.

Solution

Provisdom was able to quickly incorporate all relevant information, which raised the nominal NPV from \$421M to \$450M. This value reflects the maximum purchase price for the 75% interest. We also demonstrated how the value depended on other information (such as the yield of oil or market correlation of variable operating expenses) which would have been available to the corporation.

Time required: 1 day

Tangible Increase in Shareholder Value: \$29M.