

## Lightstream (LTS) – 3x. Eventually.

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Say you own a house. And your neighbor across the street owns a similar house. Heck, let's just say the entire neighborhood is made up of similar homes.

Last weekend, the neighbor across the street sells her home for \$150k. Zillow's Zestimate also values everyone's house at \$150k – everyone, that is, except yours. Your home, although nearly identical, is inexplicably valued on Zillow for \$50k. You're confused, but it doesn't really matter because you're never going to sell it for \$50k. When you go to sell, you're going to get what every comparable home in your neighborhood gets. That's how the real estate market works.

That's how every (mostly) efficient market works. Eventually.

**But in-between today and “eventually”, anomalies can pop up.** And these anomalies create fantastic investment opportunities.

Case in point: Lightstream (LTS; previous note [here](#)).

This past Sunday, Whiting Petroleum bid for Kodiak Oil & Gas ([here](#)). The market seems to love the all-stock deal, with the acquirer (WLL) up almost 8% yesterday.

The interesting thing about the target (KOG) is just how similar it is to LTS. They are both pure-plays on horizontal production, heavily weighted to oil, have similar production profiles, per-well economics, and cash flows. Take a look at just how alike they are:

	<u>LTS</u>	<u>KOG</u>	<u>Winner</u>
Stock Exchange	TSE	NYSE	
Production Area	CA Bakken, Cardium, Swan Hills	US Bakken	
Net Acres	750,000	171,000	LTS
% Oil	74%	83%	KOG
Production (BOE / D)	44,000	41,500	LTS
EBITA	\$795MM	\$720MM	LTS
Payback Period	6 Quarters	5 Quarters	KOG
Royalty Rate	12.5%	15.0%	LTS
Decline Rate	29.0%	40.0%	LTS

After studying this table, you could make the argument that LTS is, in fact, more attractive than KOG. **But for the purposes of this note, KOG is quite literally the neighbor across the street.**

**Let me repeat that: KOG is a near-perfect comp to LTS.** And the deal announcement

between WLL and KOG creates a near-perfect precedent transaction with which to value LTS.

So call me confused as I stare at the Grand Canyon-sized gap in valuation between KOG and LTS – it's the functional equivalent of Zillow valuing your home at \$50k when your neighbor just sold for \$150k:

	<b>LTS</b>	<b>KOG</b>
Market Cap	\$1.5BN	\$3.8BN
Debt	\$1.8BN	\$2.2BN
EV	\$3.3BN	\$6.0BN
EV / Flowing Barrel	\$75,795	\$144,578
EV / EBITA	4.2x	8.3x
EV / Net Acres	\$4,447	\$35,088

To reach KOG's multiple, Lightstream's stock would have to go up 3x (200% from here).

Will it get there?

I have little doubt.

When will it get there?

**Eventually.**