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Underground horizons

For some investors the recent global financial crisis has sounded the bell for acquisition opportunities. Matt McCann, CEO of TransAtlantic Petroleum, gives Andrew Pelis some insight into how troubled times for the oil and gas sector have worked to the company's advantage



An aggressive strategy of acquisitions in emerging markets during the current market slump is very much paying off for one oil and gas company from Texas.

TransAtlantic Petroleum has quickly built its reputation as a vertically integrated, international energy company engaged in the acquisition, development, exploration and production of crude oil and natural gas. The company holds interests in developed and undeveloped oil and gas properties in Turkey, Morocco and Romania. When oil and gas prices plummeted in late 2008, circumstances created big opportunities for acquisition, and TransAtlantic was at the forefront for capitalization.

Vertical integration plays an important role in the company's success, as Matt McCann, CEO explains. "We own our own rigs, fracture stimulation and seismic equipment, which has been a key component to our success as we have entered underdeveloped energy countries."

Headquartered in Dallas, the company has a focus on Turkey, where many of its 500 employees are based, and aside from employee expertise, it's the equipment that makes a big difference. "We own seven drilling rigs—and have an eighth on the way—and we currently have six drilling projects going on, with several additional exploration projects taking place," McCann says.

At the present time TransAtlantic is looking to add to its assets with the \$96.5 million acquisition of Turkish company Zorlu. With that comes ownership of another million acres of prime oil and gas country that represents "dozens of opportunities" in McCann's eyes. "The site is located in the Thrace Basin, and we expect to close this deal within the month," he affirms. "We try to grow the company with a balance of organic growth and strategic acquisitions, where we feel that our skill sets and management can unlock the value of a target."

The strategy of targeting opportunities in Turkey—and recently Morocco and Romania—is one that has a number of benefits for TransAtlantic Petroleum. For starters, the technology simply doesn't exist within these countries to get the best utilization out of oil and gas reserves, and that's where TransAtlantic's strengths really play to its advantage.

"We've been first among international E&P companies in recognizing the opportunity in these countries early," McCann admits. "You can acquire



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big areas on good fiscal terms, and there exists the opportunity for high-rate wells. Although there has been historic drilling in all three countries, they remain largely underdeveloped. I think that Turkey in particular will capture the imagination of the industry over the next several years."

The company has been involved in Turkey for several years, but its roots stem from the Riata Energy Empire that chairman Malone Mitchell built up from the mid-80s. Starting out with just \$500, his business became one of the largest privately held oil and gas exploration companies and the largest privately held land driller in the US before it was sold in 2006.

"Following the sale of Riata, Malone started to look for new opportunities to re-enter the oil and gas market and eventually came across TransAtlantic in early 2008," McCann explains. "We had a legacy and strategy of being vertically integrated and also owned capital, so we started out by buying stock from the company and gradually increased our stake. This is a public company, but Malone's involvement and experience has been huge.

"What has really set us apart have been the last two elements of what we call the four-step business cycle," McCann continues. "The first step is identifying where you want to be; the second element is to acquire the acreage [they had already acquired the rights to drill], and then we came along to complete the cycle by funding the drilling [the previous owners had little access to capital], and of course the final step is execution. It doesn't matter if you have the acreage and the capital; if you don't do a good job you won't succeed, and you'll get exactly the returns you deserve.

"We look at managing a balanced book of business between the development of established sites and low-level up to higher-risk exploration," McCann continues. "Right now we are drilling in Turkey; you try to mitigate risk before drilling through a series of seismic tests, and we use OYO Geospace technology to ascertain geophysical conditions and ensure there is a structure in place in the ground. This involves using wireless 3-D seismic crews, and it gives us a distinct advantage, as we can acquire higher-quality data much faster than other companies."

The other huge factor that's going to make TransAtlantic's sorties into Turkey successful will be its fracture stimulation equipment, which is due



to arrive shortly. Often the gas or oil is holed up inside rock, and the equipment is able to pump fluid and sand at high pressure into the rock to fracture it and create cracks that the sand enters. Once the pressure is released, an environment is created that allows the oil or gas to flow into the well reservoir, significantly increasing the productivity.

McCann describes Turkey as a "terrific location for business" and adds, "we find the culture very hard-working and talented, and where possible we hire local people. We have some ex-patriates over there bringing the Western oil and gas mindset to the country, and because fracture stimulation is not currently done in Turkey, we'll have to create that talent through in-house training.

"Another of our strengths is operating in a parallel rather than linear fashion," McCann adds, "and we try to get our people trained to multi-skill and look at opportunities to save time and improve efficiency. It also helps that we set up our service team [Viking International] in Istanbul in 2008, and they can clear or build roads, shoot the seismic and drill the well for us, meaning that our execution is very much based on successful teamwork."

Looking to the future, McCann says that the arrival of the fracture stimulation equipment will offer further opportunities to rehabilitate old wells, while the acquisition of Zorlu is also very much on the horizon. "We expect to see a return in several different ways: we're buying existing production and see a strong cash flow from this, but we can also drill wells and connect these to pipeline. Acquisitions will remain a possibility, and we're always looking for opportunities; if anything fits perfectly, we'll consider it."

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