+--+

Dark Side of Fracking Makes Heckmann a Takeover Target: Real M&A
2011-12-13 05:41:31.755 GMT

By David Wethe and Tara Lachapelle

Dec. 13 (Bloomberg) -- The need to reduce the environmental risk from shale-oil drilling is boosting the allure of Heckmann Corp. and Poseidon Concepts Corp. as takeover targets.

Local and federal regulators are raising questions about pollution after demand for so-called hydraulic fracturing, which uses millions of gallons of water mixed with sand and chemicals to unlock oil and gas in shale rock, more than tripled in the past five years. The U.S. Environmental Protection Agency said in a report last week it found evidence of chemicals used in the process in a drinking-water aquifer in Wyoming.

Heckmann and Poseidon, which supply workers and equipment to handle the chemical-tainted water that is a byproduct of “fracking,” may now attract interest from oilfield-services suppliers that help energy companies tap unconventional assets, said Ladenburg Thalmann & Co. and Haywood Securities Inc. With analysts projecting revenue at both companies will jump at least 50 percent next year, according to data compiled by Bloomberg, Stephen Trauber, global head of energy investment banking at Citigroup Inc., says he expects takeovers in the industry to increase as demand for water-management expertise rises.

“Water has really leapt to the forefront of energy-related developmental issues,” Michael Roomberg, a New York-based analyst for Ladenburg Thalmann, said in a telephone interview. “There’s an increasing premium placed upon health, safety and environmental services that these companies practice in the shale plays. A company that’s in the business of ensuring the safe disposal, treatment and transport of water like Heckmann is ideally positioned in this very rapidly growing space.”

Hydraulic Fracturing

Heckmann and Poseidon may make sense for Schlumberger Ltd. and Halliburton Co., the world’s two biggest oil services providers, Roomberg and Haywood’s Geoff Ready said.

“The company is not for sale,” Richard Heckmann, chief executive officer of Coraopolis, Pennsylvania-based Heckmann, said. “I would never market it for sale, but I would never stop our shareholders from having the right to decide.”

Matt Mackenzie, chief financial officer of Calgary-based Poseidon, didn’t immediately respond to a telephone call or e- mail seeking comment.

Beverly Stafford, a spokeswoman for Halliburton in Houston, and Stephen Harris, a spokesman for Houston- and Paris-based Schlumberger, both declined to comment.

Demand for fracking, a method used by oil companies primarily when drilling horizontally to fracture oil- and gas- bearing rock, has ballooned as rising energy prices make it more lucrative for producers to explore on land than under water.

Slurry

Major deposits have also been discovered in parts of the U.S., such as Eagle Ford in southern Texas, the Bakken shale in North Dakota and the Marcellus shale in Pennsylvania.

The number of horizontal rigs active in the U.S. has climbed to 1,151 from 337 at the end of 2006, data compiled by Bloomberg show. The rigs drilled about 6,000 wells that were completed with the fracking process last year, a more than sixfold jump in five years, according to research firm IHS Cera.

With the boom in fracking, water usage has increased as oil companies employ higher-powered pressure pumps to inject chemically treated slurry into dense shale rock to open wells.

Water used by energy companies will almost quadruple to as much as 15 billion gallons each day by 2035 from 4.3 billion gallons a day in 1995, according to an estimate by Mike Hightower, a researcher at Sandia National Laboratories, who was on the team hired by the U.S. Energy Department for a 2006 study on the relationship between energy and water.

Groundwater Contamination

"The development of shales and fracking is growing rapidly and water goes hand-in-hand with the development of shale fields," Robert Brown, a Minneapolis-based analyst for Craig- Hallum Capital Group LLC, said in a telephone interview.

It has also raised environmental and public-health concerns over the possibility that the fluids may be leaking into the water supply. The EPA's Dec. 8 draft report linked fracking for natural gas to groundwater contamination for the first time.

The agency's three-year study followed complaints from residents about the smell and taste of their water. Samples taken from two deep water-monitoring wells near a gas field in Pavillion, Wyoming, showed synthetic chemicals such as glycols and alcohols "consistent with gas production and hydraulic- fracturing fluids," the EPA said.

The report bolstered calls for tighter regulation of air and water quality in oil and gas production, which may lead to more demand for expertise in water treatment, transportation and disposal. That may boost the industry's growth and consolidation, according to Citigroup's Trauber.

Opportunity Cost

"It's a growing business," he said in a telephone interview from Houston. "With all the drilling that's going on in the U.S, it's a major concern. It's a growing phenomenon that people are recognizing as opportunities and people are starting to take advantage of it."

Heckmann, a four-year-old business "created to buy and build companies in the water sector," according to its website, would be an attractive target for Schlumberger or Halliburton because environmental and safety risks in fracking have placed an importance on its suite of water services, particularly the disposal of chemical-tainted water, Ladenburg Thalmann said.

In addition to its trucking, water treatment and fluid handling services, the $786 million company also has a 50-mile water disposal pipeline in the Haynesville Shale, which spans northwestern Louisiana, southwestern Arkansas and eastern Texas.

It treats and disposes up to 100,000 barrels of water per day.

Analysts estimate that revenue at Heckmann will increase 51 percent to $256 million in 2012, after more than tripling this year, according to data compiled by Bloomberg.

'Growth Ramp'

The growth in sales will also help the company become profitable for the first time next year, the data show.

"Heckmann is building a group of very attractive assets in the water business, which is critical to energy development,"

said Craig-Hallum's Brown. "It's unique in that they have a broad mix. Heckmann has got a fairly significant growth ramp ahead of it. That's attractive to energy services companies."

Potential bidders may wait until Heckmann establishes its competitive advantage in an industry that is still dominated by smaller companies, according to David Rose, a Los Angeles-based analyst for Wedbush Securities Inc.

"The advantage for any potential acquirer is not really built in just yet," he said in a telephone interview. "There's a lot of competition."

Still, the 68-year-old Heckmann, who is also part-owner of the National Basketball Association's Phoenix Suns, sold the last two businesses that he ran -- K2 Inc. and U.S. Filter Corp.
-- before starting his namesake company. Heckmann, which has risen 40 percent in the past year, ended at $6.30 yesterday.

Frack Tanks

Poseidon, split off from Open Range Energy Corp. in November so it could rent out so-called frack tanks to other producers, may also attract interest from potential buyers, according to Haywood's Ready, a Calgary-based analyst.

The tanks are used to store fresh water before it's pumped into the well for fracking. They then hold the tainted water after it is pumped back out and before being trucked away or recycled by another company.

Poseidon, which will have about 240 frack tanks by the end of the year, has the ability to build nine tanks a week and can generate about $1 million from each tank in a year when used full time, Haywood's Ready said. That means Poseidon can recoup the expenses from building a tank, which costs about $200,000 each based on his estimate, in about two or three months.

Analysts now project that Poseidon will more than double revenue to C$163 million ($159 million) next year, data compiled by Bloomberg show. In an acquisition, Haywood's Ready says the company could get C$13.50 a share, or 22 percent more than its price of C$11.06 yesterday.

"It's been explosive growth for them," he said in a telephone interview. "The economics on it are staggering."

For Related News and Information:
Heckmann Corp. acquisition news: HEK US <Equity> TCNI MNA <GO> Mergers & acquisitions search: MA S <GO> Mergers and acquisitions news: NI MNA <GO> Top deal stories: TOP DEAL <GO> Real M&A columns: NI REALMNA <GO> Bloomberg Industries Research, Oil: BI OILS <GO>

--Editors: Michael Tsang, Daniel Hauck.

To contact the reporters on this story:
David Wethe in Houston at +1-713-651-4612 or dwethe@bloomberg.net; Tara Lachapelle in New York at +1-212-617-8911 or tlachapelle@bloomberg.net.

To contact the editors responsible for this story:
Daniel Hauck at +1-212-617-1697 or dhauck1@bloomberg.net; Katherine Snyder at +1-212-617-5212 or ksnyder@bloomberg.net; Susan Warren at +1-214-954-9455 or susanwarren@bloomberg.net.