

## Why This Surprise Play Is Huge for ExxonMobil

John Bromels, The Motley Fool, Motley Fool Mon, Oct 16 7:33 AM EDT  
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Normally, the bigger the company is, the less likely it is that any single decision or event will impact it significantly.

But that isn't the case with oil giant **ExxonMobil** (NYSE: XOM), which has gone all in on an unexpected oil play.

Luckily for the company -- and its partner, the



smaller oil industry player **Hess** (NYSE: HES) -- its gamble seems to be paying off. Here's what ExxonMobil did and why it may cause both companies to outperform.

### Completely ignored

In the oil business, what looks like a promising field can sometimes be a dud. **BP** found this out firsthand when it discovered gas in the Katambi Block off the coast of Angola in 2014. What looked like an area ripe with hydrocarbon potential turned out to be a big letdown, as the Katambi gas block was deemed to be noncommercially viable. That resulted in [a \\$750 million writedown](#) for BP when it finally gave up on the play.

Conversely, a region that the entire industry dismisses can sometimes pay off handsomely for companies that make a minimal investment. Take **Apache Corporation's** new Alpine High play in West Texas: Due to industry misconceptions about the region's hydrocarbon potential, the company was able to snap up land for the [incredibly cheap price](#) of \$1,300 per acre. Apache now estimates the land contains more than 3 billion barrels of oil and 1 *trillion* cubic feet of natural gas.

Success seemed unlikely for ExxonMobil when it first explored for oil and gas off the shores of Guyana. There had never been a successful oil find in Guyana, and two wells drilled in 2012 were disappointments. But in 2015, Exxon's Liza-1 well discovered 90 meters of oil-bearing sandstone, and the goodies just kept on coming.

### Cashing in

By the end of September, Exxon had made three more oil discoveries, in addition to Liza-1. These discoveries -- named Payara, Snoek, and Liza Deep -- made the company [very optimistic](#) about prospects for the rest of the play.

On Oct. 5, ExxonMobil announced a fifth discovery at its Turbot-1 well. The well encountered a reservoir of 75 feet of high-quality, oil-bearing sandstone, similar to previous finds in the area. Exxon now expects to drill another well at the Turbot site in 2018. Meanwhile, following completion of the Turbot-1 well, the Stena Carron drillship will move north to the "Ranger" prospect to see if it has continued success.

Exxon expects the first oil to begin flowing from Liza by 2020 after it has time to develop the block. That may seem like an eternity, but it's actually pretty speedy by deepwater standards. Jeff Woodbury, ExxonMobil's vice president of investor relations and secretary, referred to it as "industry-leading" in the company's Q2 earnings call.

And there may be more where all this came from.

### On the block, in the neighborhood

These latest discoveries occurred in the 6.6 million acre (about 10,350 square miles) Stabroek Block. Exxon's subsidiary Esso Exploration and Production Guyana Limited is the operator and holds 45% interest in the block. Hess' subsidiary Hess Guyana Exploration Ltd. holds 30% interest, with the remaining 25% interest held by Chinese company CNOOC Nexen Petroleum Guyana Limited.

"The results from this latest well further illustrate the tremendous potential we see from our exploration activities offshore Guyana," said Steve Greenlee, president of ExxonMobil Exploration Company. "ExxonMobil, along with its partners, will continue to further evaluate opportunities on the Stabroek Block."

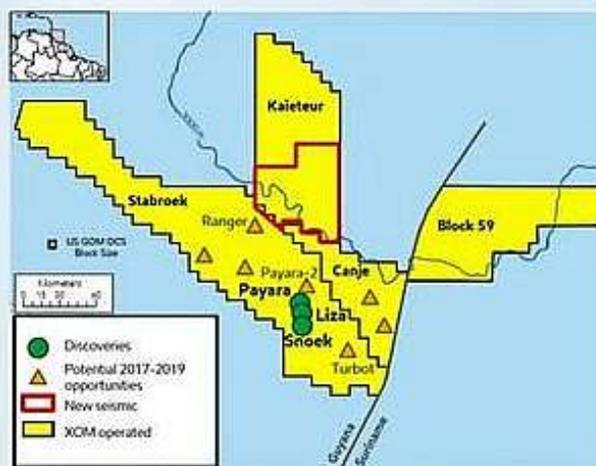
And the company is doing more than just evaluating the Stabroek Block: It's purchased stakes in neighboring blocks as well. These include the Kaieteur and Canje blocks in Guyana and the less cleverly named Block 59 in next-door Suriname:

## Guyana-Suriname: World-class exploration

High-potential exploration program on over 14 million gross acres

- Signed PSC for block 59 in Suriname
- Continuing 3D seismic acquisition
- Payara-2 success confirms 500 MOEB
  - 2.3 - 2.8 BOEB of recoverable resource on Stabroek Block
- Additional wildcats planned in 2017
  - New play tests at Turbot and Ranger, potential for additional developments

Payara-1	Snoek	Liza-4	Payara-2	Turbot	Ranger	Expl. well
1Q17	2Q17	3Q17	4Q17			



The company has begun seismic testing in the Kaieteur Block but may not get around to the other two blocks for years. That's fine: Clearly, Exxon has plenty in the Stabroek Block to keep it occupied. And if all of the other discoveries do as well as the ones the company has already found, Stabroek could be the proverbial cash cow for Exxon and Hess for years to come.

### **A win for investors**

That the good news keeps on flowing (pardon the pun) from Exxon and Hess' Guyana operations should make investors very happy. The companies took a risk and it seems to have paid off in spades. The only downside is that it will take three years -- or more -- for the oil to start flowing in earnest, so there likely won't be an immediate impact to either company's bottom line.

For long-term investors, though, this strengthens the buy thesis for both of these companies, particularly for the smaller Hess, whose [solid fundamentals and beaten-down stock price](#) make it ripe to outperform if oil prices stabilize or rise. Increased production from Guyana would be the icing on the cake.