

## The Tao of Abby

Written by Malcolm Shaw of Hydra Capital Partners

*I say it all the time, but I do watch a lot of companies...sometimes over very long time periods. One story that I've always watched, but have never owned until recently, is TAG Oil (TAO.V, last at \$0.20).*

Until recently, TAG Oil was primarily a New Zealand oil and gas story. I say 'recently' because TAO sold its New Zealand assets late in 2019 and subsequently paid a \$0.30/share special dividend (return of capital) back to shareholders in April of 2020 (hence the associated drop in the share price on the day the dividend was paid). That essentially left TAO as a cash shell, with ~\$15 million in cash as of June 30th, no debt, and a few non-core oil & gas blocks in Australia.

Over the years, I've seen that cash shells can go either way, or be dormant for a long time... so when I look at cash shells these days I want to see a good management team, with a plan that I like, in a company with a good share structure that isn't bogged down by infinite selling from a bunch of holders with no unified vision. That unified vision always starts at the top, which has historically set up the "management premium" that gets priced into the market when a new team of note shows up or is brought together.

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It's no secret that management is a key driver of success when starting any new venture, so the wise speculator will often look for opportunities to “bet” alongside management if at all possible. That's why when I saw Abby Badwi join as Executive Chairman of little TAO, while putting \$1 million in at 16 cents (with a couple of his business associates), my radar went up. Since TAO already had \$15 million in the bank, the extra million dollars clearly didn't have to do with TAO needing more money, so it must have meant that Mr. Badwi and his associates wanted to get long an appreciable amount of stock... presumably because they think those shares will be worth more with what he/they are bringing to the table.

First, a little bit of history on Mr. Abdel Badwi, or “Abby” as he is known to most on the Street. I first met Abby nearly fifteen years ago when I was an analyst covering Rally Energy in Egypt. Abby grew Rally into a circa ~8,000 barrel per day producer through an aggressive development plan on an existing field that others had overlooked before his arrival. There were big growth plans for Rally in the cards when it was bought by Citadel for ~\$900mm in 2007. Over about a two-and-half-year period the shares went from \$1.25 to \$7.30. Not too shabby.

After Rally, Abby joined Bankers Petroleum where he was CEO for four years, and

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oversaw production grow from 6,000 bopd to over 13,000 bopd between 2008 and 2013, before operational challenges at the company’s Albanian oilfield led Abby to step aside (but remain as Vice Chair) so that David French could take over (in March 2013). Personally, I was never crazy about the Albanian deal, though I did watch its progress with interest over the years. Eventually, Bankers was sold for C\$575 million in 2016, so Abby had clearly captured an asset of value in the early days.

Depending on when you bought/owned Bankers you may or may not have made money on it. If you were early, you definitely made money though, and

that’s what’s most relevant to my thinking on TAO right now, given that it’s clearly “early” in the story.

After Bankers, Abby had a couple of stints in two companies that I remember; one called Arpetrol and one called GrowMax. Neither was particularly memorable and I mention them only to point out that no batter hits it out of the park every time. I didn’t even know that Abby was in Kuwait Energy until I saw the TAO press release which referred to that deal in Abby’s bio. Abby was a board member of Kuwait Energy since 2014 and stepped in to lead Kuwait Energy as CEO from early 2018 through to its sale in 2019 for US\$650 million. That pretty much brings things through to today.

I did notice that one of the new directors, Shawn Reynolds, appears to have met Abby through the Kuwait Energy deal and I have to admit that I like Mr. Reynolds’ background quite a bit. Abby has also brought his COO, Suneel Gupta along in the TAO train...the first time I saw Mr. Gupta’s name was in the Bankers deal in Albania and if he’s still running with Abby all these years later, he’s okay in my books.

At today's price of 20 cents, TAO is trading at about 2.5c over its cash value of 17.5 cents. TAO has 91-92 million shares out after the investment by Abby et al., which means that the "enterprise value" (market cap, minus net cash) of TAO is \$2.3-2.4 million. That's a far cry from the kinds of levels that "Abby-sourced assets" have sold for in the past, as detailed above, so I see a real asymmetry here. I sincerely doubt that Abby and his associates have come in at 16 cents with the intent of diluting themselves to oblivion at 20 cents. Rather, I would think that they are looking for a multi-bagger on their money over time. The downside? Well, cash shells trade at discounts to cash all the time. TAO itself briefly traded as low as a dime when it was just a cash shell "stub" (post-return-of-capital) in April and that was about 2/3 of cash when there was no plan. Well now, a plan is forming and all I have to do is wait for it to come to light.

Abby has been named Executive Chairman, which means that he must have come in the door with some ideas. What exactly TAO will do is the question on everyone's minds right now, but those details will come soon enough. Abby's history would suggest that he will attempt to capture an undercapitalized and/or under appreciated oil/gas development asset and then aggressively develop it, but that's just guessing on my part. The company did state that it was looking in the "Middle East and North Africa" region (MENA for short), which is right in Abby's wheelhouse when it comes to deals.

I fully realize that I'm making a blind bet on Abby and the team here, but I'm okay with that. In a market where premiums of \$10-20 million are being placed on mining companies with the slimmest hopes of ever finding (never mind developing) something commercial, I think that paying such a small premium to bet alongside a player like Mr. Badwi is quite an opportunity. I know that energy isn't in favour right now, but the cheap stuff never is... at least here I've got a cash backstop and an experienced team that's ready to hunt in what should be some fertile hunting ground. I would expect to see some additional detail from TAO on "the plan" in the coming weeks.

Time will tell.

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*View this Article on [HydraCapital.ca](http://HydraCapital.ca)*

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Malcolm holds a MSc in Geology from the University of Toronto and has nearly 20 years of experience spanning the resource and investment industries. He started his career as a geoscientist at PanCanadian Petroleum (now EnCana) before transitioning into the investment industry as an international energy research analyst at Wellington West Capital Markets. Before joining Hydra, Malcolm was a Vice President at K2 & Associates Investment Management where he specialized in the energy and materials sectors.

*Note: This article was written on September 9, before the company sold its Australian Assets*

## **About TAG Oil Ltd.**

TAG Oil Ltd. (<http://www.tagoil.com/>) is a Canadian based international oil and gas explorer with plans for accelerated growth through acquisition in the Middle East and North African region.

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