Summary & Transcript

Josh Young

1. Strategic Actions and Decisions

- **Select valuation opportunities based on execution quality: Prioritize value equities that combine high execution quality and catalyst potential over companies that are merely cheap.**
- **Shift capital allocation to accretive activities: Cease highly dilutive acquisitions and poor site drilling in favor of small accretive deals, buybacks, debt paydowns, and high-return wells.**
- **Capitalize on refinancing and cost structure advantages: Leverage low-cost debt refinancing to lower required amortization, extend maturity terms, and reduce free cash flow yields.**
- **Monitor primary operational and management risks: Continually evaluate downside risk drivers including capital misallocation, declining site-selection accuracy, and severe drops in commodity pricing.**
- **Align executive incentives with equity performance: Structure leadership compensation programs so executive payout relies on stock appreciation rather than expanding asset size.**

Executive Summary

Josh Young presents Saturn Oil & Gas as an undervalued energy opportunity undergoing a operational turnaround. By transitioning away from dilutive M&A toward capital-efficient drilling, balance sheet deleveraging, and accretive asset consolidation, Saturn yields strong cash flows while maintaining an attractive discount relative to industry peers. A recent debt refinancing locks in favorable long-term borrowing terms, validating operational improvements. Management incentives are directly aligned with share value, reducing historic misallocation risks. Overall, Saturn provides a disciplined investment thesis driven by operational execution and potential multiple expansion, resilient even in flat macro environments.

Key Takeaways and Practical Lessons

1. Quality Over Raw Cheapness: Evaluate whether a company is cheap due to poor fundamentals or merely mispriced relative to its operational execution.

- **Focus capital deployment on high-margin, well-executed operational models rather than distressed assets lacking clear catalysts.**

2. Strategic Capital Allocation Pivot: Real turnarounds require stopping value-destructive actions like dilutive equity offerings or inefficient expansion.

- **Direct free cash flow toward paying down high-cost debt, repurchasing shares, and funding high-return projects.**

3. Debt Refinancing as a Re-Rating Catalyst: Favorable debt terms can signal institutional confidence and lower operational risk.

- **Monitor corporate debt restructurings to identify when lower borrowing rates and covenant-light terms reduce liquidity hazards.**

4. Incentive Alignment Secures Execution: Leadership behavior directly mirrors structural compensation incentives.

- **Verify that key executives and board members maintain significant equity stakes and performance metrics tied to per-share growth rather than asset volume.**

5. Margin for Safety in Volatile Markets: Assets should remain viable during moderate market downturns without relying on macro tailwinds.

- **Stress-test equity positions against commodity price drops to ensure the business model remains cash-flow positive under adverse conditions.**

TRANSCRIPT

05:30:12:12 - 05:30:38:18

Beat goes on. Next, my friend Josh on. How are you? Josh? Good. How are you? Excellent. It's been incredible day. I know you, you and I were talking, backstage about a lot of the presenters. Smart cookies, kind of making the call for, you know, the the case for energy. So, you know, let's just start off with what really grabbed your imagination.

05:30:38:19 - 05:30:54:19
Surfing the big picture. If you want to talk about it. Or I know you mentioned to me that, you know, a lot of guys have made the case really well. I know you've got an idea you really want to present. So, maybe just 60s on big picture and let's get into your ideas. So, Josh, the floor is yours.

05:30:54:21 - 05:31:14:00
Sure. Okay, so I think oil's really interesting here. I think gas is really uninteresting here. There's a viral gas thesis that just went, out there that was wild because it was the thesis ten years ago and has been sort of fully debunked. And the the things that are so exciting about the gas thesis, I think are really interesting for the oil thesis.

05:31:14:00 - 05:31:31:23
And you just did a great interview of Mike Rothman, for which I basically have no notes. It's amazing because I don't subscribe to this stuff, but that was my macro stuff over the last six months, pretty much perfectly overlays with with much of what he was showing through that. So people should go listen to that. And what I want to do is walk through.

05:31:31:24 - 05:31:51:03
You asked me to share my best idea. And so along with my analysts, we put together my best idea, my largest position, which I have not disclosed publicly. I've just shown it to my newsletter. Folks. And so wow. All right. I can walk through it. That's really special. Thank you for doing it. Really appreciate that. Have Adam go for it.

05:31:51:05 - 05:32:16:13
Great. Okay. So I don't know if people can see the the screen share. We know we got we got your person got them. We're going great to the company is Saturn Oil. I'm going to show data about it which you should not rely on. This is not an offer solicitation recommendation. Caveat emptor. So just a tiny bit of background about me and my fund and what I do in life.

05:32:16:13 - 05:32:37:19
I run a energy investment fund. It's done very well over time. Launched in 2015. The comp for it, the benchmark is really PSC, which is an ETF, which is important because you'd actually own it. People use all kinds of weird stuff. PSC is a small cap ETF for energy. XRP's large cap, actually even larger in the last 11 years.

05:32:37:19 - 05:32:59:06
We're up almost 200% versus XRP minus five and PSC -56. The key to that is owning value equities with catalysts, which is what I'm going to show you in a second. This I'm about to show you my largest position. And then I launched a newsletter last year mostly for fun. Also, I put a lot of personal money into this particular stock.

05:32:59:06 - 05:33:17:08
I did a co-investment vehicle to buy more of this thing, and I figured, hey, I should probably like, make a little more money. So I launched this newsletter, sort of on the side, after dumping my personal liquidity into this particular company. So I know it's a little unconventional career wise or whatever, but it's been fun. The ideas I've shared have done really well.

05:33:17:12 - 05:33:44:14
This one's done okay since I've shared it. I think it's going to shoot the lights out. Again, you can't rely on that. But, it's my expectation and it's positioned, so the company is Saturn, oil and gas. What I'm going to do is talk to you a little about the high level, a little bit about the turnaround they did a few years ago and how they've executed since then, and then the rerating opportunity and risks.

05:33:44:16 - 05:34:11:01
So this is a company that's been assembled through acquisitions of multiple small and large oilfields. They're producing almost 42,000 barrels a day. So not small by any means generates hundreds of millions a year in EBITDA, hundreds of millions a year in free cash flow. They just guided for Q2. They pre released, I think it was 85 million of free cash flow.

05:34:11:03 - 05:34:36:16
And the market caps a little over $1 billion. So this thing trades at a giant discount to comps on basically every metric on reserve value, on sort of all of a different key reserve value metrics on EV to debt adjusted, cash flow and on free cash flow. I think it's very important to not just use one metric to triangulate across many different metrics.

05:34:36:22 - 05:34:58:00
And I actually wouldn't argue this is interesting because it's cheap. I think it's interesting because it's executing well and a great business, and that there's a lot of upside because it's cheap. And again, I think that's sort of a very important nuance that I've learned over time in the many mistakes I've made in the 11 years of running bison.

05:34:58:00 - 05:35:19:22
It's not about a stock being cheap, it's about it being good and discounted, not discounted. And therefore, you know, contort yourself to whatever. So very, very cheap stock with a lot of upside potential. But the upside potential is really it's like a good company, overly discounted rather than a discounted company that I'm going to tell you why it's not so bad.

05:35:19:24 - 05:35:42:23
They, they did underperform for many years. And from a stock perspective, and one of the great things about it, in my view, is that starting in the middle of this underperformance period, roughly middle of 2023 or early 24, they changed how they were running their business. They stopped doing dilutive acquisitions. They did much smaller, only highly accretive acquisitions.

05:35:43:02 - 05:36:09:21
They stopped drilling bad wells. They started drilling almost exclusively great wells and better and better wells. They started implementing really good sort of new technologies and focusing on their

best fields. And this has resulted, you know, again, just sort of bad capital efficiency, worse deals, not so great returns for the first sort of multi-year portion. But now we're three years in to this transition, which again, I think is very important.

05:36:09:21 - 05:36:33:09
Turnarounds are very hard timing them is hard. Getting that sort of bottom or whatever is tough. I did put a lot of money into this at a lower price than where it's at now. And using a Ric rule line, the, what is it? The big money's been made and the easy money is ahead. And honestly, in this case, it's big and arguably easier money here because of the transition that's already happened.

05:36:33:11 - 05:37:00:22
To to show the the numbers on that transition. The debt is down, the share count is down and the production is up. And then individual quarters, they keep beating and raising, which is really what you want to see. And I think it was it basically took into the third year of them doing this for the stock to start to care, and that's why it's up so much this year, but still very heavily discounted versus comps.

05:37:00:24 - 05:37:27:18
And then, a couple of specifics that I think are worth highlighting. They're beating their type curve by a lot. Basically the wells they drilled are a lot better than they said they were supposed to be. And then the average were in their area. And it's not it's not rocket science. It's real rock science. And basically they're just being very, very careful on every individual location, every individual.

05:37:27:18 - 05:37:47:04
Well, I've gone to know their CEO pretty well. I'm very impressed by him. Young guy, very hard working. And you could see the transformation in his career from earlier on drilling more wells, arguably a little less carefully. Just trying to get, you know, sort of pieces on the board versus here where great integration and on the right this was borrowed.

05:37:47:04 - 05:38:07:04
I think this was from Peters and co, but it's from their corporate presentation. And it shows you you probably heard of a number of people looking at this, probably have heard of, you know, the Delaware Basin in the Permian. They probably heard of the DuVernay. Maybe heard of the oilfields in Colorado in, you know, West Texas, in South Texas, various other places.

05:38:07:06 - 05:38:31:11
And this shows they're drilling some of the highest return wells, not just IRR, but also multiples of invested capital, versus the average for the industry. So there are low cost producer, but they're also trading at a 25% free cash flow yield. So again that's why I think it's so remarkable. And they've delivered this over many years at this point.

05:38:31:13 - 05:38:49:18
The one other thing before we get into sort of where it's going to reroute or whatever, the cash flow margin on their operations is stellar. So this is the consensus numbers. And frankly, at this point,

these are we're two quarters in to them achieving these, their cash flow margins are the second highest of their peer set.

05:38:49:23 - 05:39:15:11
We're going to get into the valuations of the peer set. And I sort of showed you already on those, different multiples. But they're making a lot of money, both on a return perspective and their margins are stellar. And so I think that's very important in thinking about, hey, you know, what is this thing? This is a thing with high return on invested capital, high margins, deep inventory and now years of execution.

05:39:15:11 - 05:39:41:07
But it's still looked at in the market, mostly as a company that has none of those things. And then most importantly, I think this was a company that was perceived to be over levered and executing poorly. And they literally just refinanced announced this morning and they got, I titled this I guess is me trying to be cute, but they had a B-plus rating from S&P, global.

05:39:41:09 - 05:40:15:10
And, they trade like a D minus stock. And so if you're going to refi and get this level of essentially covenant light money at seven and a half, 8.5% interest locked in to I think it was 20, 31. As a relatively small oil company, you probably should not be trading at a 25% free cash flow yield. You should probably be trading more in line with the other companies that have low interest rates available to them at, you know, maybe, 12% or 14% or something.

05:40:15:10 - 05:40:41:03
Free cash flow yield. Again, there's different areas in the world where there's different sort of going rates for free cash flow and so on. And I think that's part of why it's going to be helpful to show the comps and sort of potential upside, because, you know, it's not the same to produce in Europe where you're at risk of expropriation or very high, you know, profits taxes or West Africa expropriation, South America, there's all kinds of different geopolitical risks in Canada.

05:40:41:03 - 05:41:03:11
There's a whole set of companies that trade and a whole set of assets that transact very, it's a relatively liquid market. And so, I think it's helpful to, 1 to 25% free cash flow yield is great, sort of no matter where you are, but especially in a relatively stable market. So just showing upside on these different metrics that I showed.

05:41:03:13 - 05:41:21:16
And then one other note, like we said, I'm not really going to get into the macro here. Sort of no notes on your great interview a day or two ago with Mike Rothman. Like, people should listen to that, for the, for the macro. But if you believe that oil prices are going up, this is not a beta play for me.

05:41:21:16 - 05:41:42:24
This is a reread on the fundamentals. A good company that's being undervalued because of their sort of further back history. But if you think that oil is going to be 100 or 120, this is the thing that

both has that fundamental deep value and a lot of upside to higher oil. So you sort of get like two for one.

05:41:42:24 - 05:42:07:11
I like the upside to higher oil, but it's not why I own this at all. And I think this could end up being a let's say two x or three x, 60, $65 oil over the next three years as they just keep doing exactly what they're doing. Well, Josh, this is this is a stunning story. Fantastic. So many people, loyal opposition.

05:42:07:13 - 05:42:27:21
I get there might be a reputational thing with what the company used to do in the past, and maybe it's to, you know, it's going to morph into something, to repair its reputation. But is there a bear case on this stock, or is it just residual from the past of the company and the fact that maybe it's a smaller cap and so it's just neglected or.

05:42:28:00 - 05:42:43:04
Well, if we were in a debate, if you if we were at Oxford, we had the debate. Right. And I own Saturn and you have to be in the negative like you have to make the case. Is there a bear case on Saturn or is it just neglect? And what company used to be. Yeah. So, I have a slide for that.

05:42:43:04 - 05:43:06:24
I think that there is, it's very important to consider the downside risks and the, the bear case on anything. Especially something that looks really appealing. So, there's a few big risks here. So the biggest risk, in my view, is that they turn around and revert to the bad capital allocation they were engaging in in 2022.

05:43:07:01 - 05:43:35:05
And so, that is I think the number one concern among folks that talk about this, people don't really talk about this much anymore, but of the people who are negative about it, the big risk is they go do a dilutive deal and, you know, blow up all of their sort of goodwill they've built up over a number of years and undo all of the benefit of accretive buybacks and debt paydown and so on.

05:43:35:07 - 05:44:21:02
And, they did expand their term debt with this refinance thing. Again, they lowered their rate, they lowered their covenants, they lowered the required harmonization. But they did expand the debt. They're using it for a very accretive acquisition that they're closing on right now. So that mitigates that risk. But there's always that risk. People don't really change. But when they when they have behaved like this now for several years and are publicly saying and publicly showing that they're behaving like this, I feel every quarter I feel more and more comfortable every day that passes that they do accretive deals and buybacks and debt paydown and super high return wells that are beating their type curve,

05:44:21:07 - 05:44:48:03
the more comfortable I am. But that is the biggest risk. The second biggest risk is that they've been drilling great wells, which again, is sort of capital allocation. But they are both execution risk and

sort of site selection risk. If they revert back to their poorer site selection that they did a few years ago. And if they are less careful on their, management of their operations, that would be very bad.

05:44:48:03 - 05:45:09:06
They could go from 10,000 barrels a day, essentially, for adding a, barrel of oil to 25,000 very quickly. If they were less careful and did a worse job of site selection and execution. So that's also a risk. It's, I think, again, receding into the background because they've done such an excellent job on such a high percentage of their wells over the last few years.

05:45:09:06 - 05:45:26:06
But it's always possible. And then there is the risk of commodity prices, along with the debt they just issued, where, man, if oil goes to 40 and stays there for a long time, this is going to be a money loser. And so, you know, if you think oil's going to 40, you shouldn't buy any oil stocks in my opinion.

05:45:26:06 - 05:45:44:07
And you certainly should not buy this. I should not own this. If I'm worried that oil will go to 40 and stay there. That being said, I would point everyone to your interview with Mike Rothman. I don't think I think that sort of, a price that we may not see for a very long time, if ever, sustainably over a multi quarter period, but that is a risk.

05:45:44:07 - 05:46:01:18
And that would be that would lead to a very low price for the stock for a while. If oil went down to that and stayed there for a while. That's a great answer. Josh, any follow up question? I'm a big believer. We all know the line from Charlie Munger. You show me the incentives, I'll show you the outcome.

05:46:01:20 - 05:46:23:23
It's humans are motivated to do what's in their best interest given. So I realize you're trying it almost like Lori Lauralee like fashion. You're trying to lay out all the theoretical potential risk. However, this company, which maybe in Rodney Dangerfield type fashion, wasn't getting any respect when they were mis allocating capital, they're not being rewarded for cleaning up their act.

05:46:24:00 - 05:46:45:12
So, you know, company managers have a way respond to their stock price. So I guess the question really is when you speak to them, they understand that connection. And secondly, is there anything in the incentive compensation structure this company that would you know, some companies for instance, are pages to grow in the top line like you are Musk.

05:46:45:12 - 05:47:13:03
Okay, the hell with cash flow and profits. They're all the stupid guidelines are based on how many you know data centers, our space we going to have or EBITDA whatever the hell it is. Never. Okay. But so and you have companies in to destroy in volume. But if you're telling me no this company I don't know if it means is irrelevant, but I guess I'm trying to say to you, seems to me the incentives are aligned based on what I know the management sees are being rewarded for doing the right thing.

05:47:13:05 - 05:47:34:00

Is there any reason that they wouldn't do the right? Are these earnings anything about the incentives that would cause them? It was just like, you know, grow the balance sheet. No matter what you do. Is there anything about the incentives set up that would cause them to maybe do the wrong thing? Yeah, it's a great question. And it's probably like this is a 27 slide presentation is supposed to be ten slides.

05:47:34:00 - 05:47:59:12

That was my my target. The 50 slide version of this has like three slides on comp and a line. Yep. So the CEO owns, you know, a few percent of the company, which he's gotten mostly through incentive comp, but also that you bought in the market, including very recently the board has there's a self-made billionaire, former top performing hedge fund manager.

05:47:59:14 - 05:48:26:13

I think it's his family office or maybe some like friend of family money that owns close to 30% of this and has two board seats. And, they came in and when they came in, they changed the structure. In that 2021 period, there was a reward for the company to get bigger, and they changed the structure. And now the CEO and CFO, make a lot more money if the stock goes up than anything else.

05:48:26:19 - 05:48:51:04

And for like their total comp is way higher, both in terms of new stock, they get in options, whatever, but also on an existing package that they did as a part of their last big deal, which actually was quite good, not quite bad. In 2024, their comp package changed their alignment changed. And so it's not an accident that their performance.

05:48:51:06 - 05:49:09:14

Yes, yes, the muscle memory. But my reflex question was the right way. All right. Fine. So I just want to ask you last one maybe weakness. Anything else. So you mentioned free flow. You said there's one hedge fund dude or whatever who through his family officer directory owns 30%. I notice in this lack of liquidity can work both ways.

05:49:09:16 - 05:49:37:11

Down. It's bad. Up. It's good. It says you're right. Now it's about a $720 million market cap. What's the flow of this thing? I mean, other than the management and board owning about 37% of it. Yeah, the rest is free float. And so, yeah. So you're talking upwards of 455 million market cap. And you know, maybe as we know valuations tend to expand as is market cap experience.

05:49:37:11 - 05:50:06:24

So that's working in its favor as well. So so one one thing real quick on that. So you're citing US numbers. Yeah. And this is it's a Canadian company. And so when I do this peer set. Yes. Peers are companies that are in the similar size from a production cash flow reserve perspective. Some of them, by the way, trade at, you know, $3 billion or $4 billion Canadian, even though they're very similar size.

05:50:07:02 - 05:50:30:07

So this size is firmly in sort of that mid cap getting close to mid cap, for the Canadian market, even though for the US it's small to micro. So just to frame it, it's it's relatively and it used to be illiquid and it's actually starting to trade a lot more as that stock starts converging with, I don't even want to say, you know, just have to be dangerous.

05:50:30:07 - 05:50:47:14
I'm just going to say, if we were, there's, you know, you've been enough stock radio dinners in your life. I'm like, whoa, sounds really interesting. So I'm gonna do a lot of work on this idea. I'm sure you've got ideas and crossed the T's. I doubt was anything I'm going to learn the. You know, but I don't know if it's as you say it is.

05:50:47:14 - 05:51:04:05
It sounds like it could be. Really be good. Again, Non-Investment advice just doesn't work. Don't blame me. Don't blame Josh. But I like it. It's just great. Well, if it doesn't work, I'm going to lose a lot of money personally, and it's going to really hurt those outperformance years that I've had over the last 11 for my firm.

05:51:04:05 - 05:51:22:23
So I, I don't feel pain. And the reason I love, you know, Lewis, I love this conference. Guys like you. I keep saying it was eating their own cookie. So whether it's a research service, you're a hedge fund guy talking your book. You use the term before alignment of interests so you can have a lot of egg on your face and lose a lot of money if this doesn't work.

05:51:22:23 - 05:51:42:23
So Josh, guy, just we want you perfect. Anything else you want to say just for you guys to be fantastic? Last thing, last thing. Working folks. Fine. You have a great Substack. I am a subscriber. You have a great Substack. How should people put your on your impressive, fair bit as well? Is your Substack the best way to follow you?

05:51:42:23 - 05:52:03:01
Would you have a website as well? Yeah, sure. So bison interests for my firm, but that's only open to accredited investors. And this is not a solicitation. I have this newsletter I did, sale thing for your, conference people. And, the plan is to to comp you a little bit if anyone signs up under this disclaimer.

05:52:03:03 - 05:52:27:11
So they should, they should people should. Bison insights on info, forward slash noble. We're not running. I'm not going to run a lot of I used to run a lot of sales and stuff for the Substack, but I found I was spending too much time on Q&A. And so I'm letting the sort of, normal churn work its way through and have the total subscriber count down while maintaining or growing the revenue by just charging for higher price.

05:52:27:13 - 05:52:46:22
But for your people who do the it's 30% off. So if people want wanted. Very kind of you, Josh, really, you know, we're to Brave New World or Back to the future or whatever it is, as they say. And I talked

about your funnel talk about markets, you know, past returns, past results of the S&P or no guarantee, future results.

05:52:46:24 - 05:53:03:21
I think both you and I suspect the next ten, 20 years ago look a lot different. The past ten, 20 years. And I think your time has come, mister Mr. young. So there. Well, don't just just want one last thing, which is that again, like you said, I think I heard you talking about this in an earlier. I listened to a couple of the earlier presentations.

05:53:04:02 - 05:53:27:02
It's not, what is it? It's not a stock market. It's a market of stocks. I like this stock. And independent of all the macro analysis and all this other stuff outside of oil going to 40 or some sort of terrible collapse. I think this thing is very well positioned for multiple expansion. And if they don't get it, I think they're very well positioned to pay off debt and buy back a whole bunch of stock and grow.

05:53:27:06 - 05:53:47:07
So even if they keep their multiple, I think the stock could perform really well. And that's why I chose I really like, you know, you and I haven't always gotten along, that I've always appreciated your focus on finding undervalued companies with catalysts that could outperform. And I wanted to come and share my favorite idea for you, by the way, I want to say one thing you know about that.

05:53:47:07 - 05:54:12:01
I mean, it's kind of silly when you think about disconnect. We are way back when it actually started around a mike and said, forget about who was right, who was wrong. It's not the point. In this crazy world of social media and X and this and that, you know, it's so easy to have a disconnect with somebody. The real question is, I mean, you look at all of us now, like, you know, we're having a bromance here, right?

05:54:12:03 - 05:54:32:16
Like it's stupid. All right. It really is stupid. I would just urge everybody texting Alex and Josh, you get tomatoes thrown at you all the time. Has the Y right? Like, people say stuff and do stuff and social media and texting. They would never say face to face with somebody. And I, you know, I, I'm, I'm flattered that, I can call you a friend.

05:54:32:16 - 05:54:51:03
I don't need that. Well, but we're getting to know each other a little bit, and, everyone just take a chill, chill pill. You know, and I think there will be a much better place. Hyper partizanship of politics, all of it. So anyway, Josh, thank you so much for doing this. We'll do it again. We'll do a podcast for you on the spaces.

05:54:51:05 - 05:54:54:05
It's fantastic. Thank you. Josh, thank you.