Whitecap Resources: a standout player in Canada's oil patch

Description

Recent institutional investment activity in Canada's oil patch has thrown the spotlight back on to what had become a relatively ignored sector. The key driver of this institutional interest was the recent spike in the price of crude. This caused many of the key players in Canada's unconventional oil sands industry to appear undervalued. But despite this renewed interest, it is Canadian small-cap light oil producer **Whitecap** (TSX:WCP) that continues to standout and offer superior value for investors.

Strong strategic vision continues to build value for shareholders

What makes Whitecap stand-out from other Canadian oil companies is its strategy of acquiring high netback, low decline rate conventional light oil assets that appear undervalued and then optimizing those assets. It does this in preference to spending considerable sums on exploration leaving it less vulnerable to funding shortfalls and liquidity issues.

Typically the company only acquires those assets that complement its existing assets and are value accretive. It then seeks to optimize capital and operating efficiencies, while reducing costs and boosting production.

The success of this strategy can be seen by Whitecap's proved and probable oil reserves compound annual growth rate of 76%. Production has also grown for the last five successive quarters, to be 17,910 barrels of oil daily at the end of the second quarter 2013, which is a 32% increase year-over-year.

Recent acquisitions will sustain the company's growth trajectory

Already in 2013 Whitecap has closed two acquisitions, acquiring Invicta Energy Corp for $60.2 million in April 2013 and a Dodsland Viking light oil asset in the second quarter of 2013 for $110 million. The acquisition of both of these assets increases Whitecap's production potential by 1,400 barrels of oil daily and bodes well for continued production growth through the remainder of 2013 and into 2014.

These acquisitions have also boosted Whitecap's proven and probable reserves by over three million barrels of oil and should yield further reserves growth as the company optimizes those assets.

The focus on light oil continue to reap benefits

One stand-out feature of Whitecap is the company's focus on light oil assets rather than investing in Canada's more prolific oil sands assets. Allowing Whitecap to receive a higher average realized price per barrel of oil than those Canadian companies that rely upon oil sands for the majority of their production. This is because Canadian light oil trades at a lower discount against West Texas Intermediate than Canadian heavy oil and bitumen.

For the second quarter 2013 Whitecap's light sweet crude averaged a discount of $3.85 per barrel against its benchmark price for West Texas Intermediate. Whereas Western Canadian Select heavy oil — a blend of bitumen with diluents and conventional light crude — typically trades at a discount of around $26 per barrel against West Texas Intermediate.

Typically, light oil assets also have a lower supply costs per barrel of crude than oil sands. This is especially the case when an upgrader is used in oil sands production to convert bitumen to synthetic crude, which generally is discounted by 90 cents per barrel against the price of West Texas Intermediate.

This in turn allows Whitecap to make a higher profit margin, particularly when it is considered that the development costs associated with light oil assets are typically lower than those associated with oil sands assets.

Solid dividend yield rewards investors

Another key aspect of Whitecap's strategy to unlock value and reward shareholders is its recently instituted dividend payment policy. In January of this year, Whitecap commenced paying a monthly dividend of five cents per share, giving the company an impressive annualized dividend yield of around five percent.

This is a somewhat surprising undertaking for a junior oil producer and it is relatively unheard for similarly sized companies to pay a dividend. Normally companies of this size use all of their free cash flow for exploration.

Whitecap's yield is superior to many of its larger Canadian peers as illustrated by the table below.

Company	**Annualized Dividend Yield**
Whitecap Resources	5%
Husky Energy	4%

Suncor Energy	2%
Canadian Natural Resources	1.5%
Imperial Oil	1%

Based on Whitecap's current financial performance, it is expected that this dividend yield will remain sustainable and reward those investors seeking a steady income stream along with exposure to Canada's oil patch.

Foolish bottom line

Whitecap appears attractive for a number of reasons. But it is its strategy of acquiring and optimizing undervalued light oil assets along with paying a solid dividend yield of five percent that makes it standout. As a result Whitecap is able to sustain a growth trajectory that is the envy of many similar sized companies, while reducing the risks associated with high cost exploration activities.

For another great small-cap idea, **click here now** and download the Motley Fool Canada's "**Top Small Cap For 2013….and Beyond**". It's **FREE!**

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1. Investing

TICKERS GLOBAL

1. TSX:WCP (Whitecap Resources Inc.)

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Date
2025/09/13
Date Created
2013/10/17
Author

mattdsmith