4 Reasons to Consider Buying Surge Energy

Description

Small-cap oil explorer and producer Surge Energy (TSX:SGY) has been one of the hottest performers over the last year in Canada's oil patch, its shares spiking an impressive 58%. Despite this hefty gain, the company still offers considerable value for investors with an appetite for the risk that comes with investing in small-cap oil explorers and producers.

1. It has built a solid asset base
Surge Energy operates 4 properties. They are located in western Alberta, southeast Alberta, southwest Saskatchewan and the Williston Basin with estimated potential oil in place of 1.4 billion barrels. Giving the company tremendous potential upside if its exploration and development programs are successful.

It has also in its short operational history built impressive oil reserves of 61 million barrels, of which 22 million barrels have been developed and brought into production. These oil reserves have an impressive after tax and royalties net-asset-value of almost $1.2 billion or just over $7 per share, which is significantly higher than Surge Energy's current share price. All of which highlights the tremendous potential upside available to investors.

2. Has considerable growth potential
More importantly Surge Energy reported some solid 2013 operational results, with oil production surging 21% in comparison to 2012 to 10,769 barrels of oil daily. The proportion of that production made up of higher margin oil and non-gas liquids also increased, jumping a healthy 9% in comparison to 2012, with oil making up 79% of total production.

Finally Surge Energy's operating netback per barrel – a critical measure of an oil producer's profitability – grew 17% for the same period to $34.65 per barrel. It also compares favorably with a number of Surge Energy's peers in the patch, being superior to **Penn West Petroleum's** (TSX:PWT)(NYSE:PWE) $29.69 and **Pengrowth's** (TSX:PGF)(NYE:PGH) $24.35 per barrel.

It is also only 16% lower than **Whitecap Resources'** (TSX:WCP) $42.62 per barrel, indicating Surge Energy's core profitability is superior or equal to many of its more mature peers. An impressive feat when its relatively junior status is considered.

Surge Energy's management expects 2014 production to grow by whopping 42% to a record level of 15,250 barrels of crude daily. Boding well for the company to boost its revenue, cash flow and bottom-line, which should drive its share price higher over the course of the year.

In order to support this significant production growth Surge Energy has flagged capital expenditure of $114 million to develop existing oil producing assets and explore for further oil discoveries. When coupled with an exceptional 2013 drilling success rate of 98% and the massive resource potential of its properties, it is highly likely its oil reserves will continue to grow through 2014.

All of which bodes well for Surge Energy to continue unlocking value for share holders through growing production, increasing its oil reserves and boosting both its cash flow and bottom-line.

3. Appears attractively valued

Another appealing aspect of Surge Energy is despite the solid gain over the last year, it still appears attractively valued when a range of key metrics used to value oil explorers and producers are considered. Currently Surge Energy has an enterprise-value of 14 times its oil reserves and a mere $63,303 per barrel of oil produced.

These multiples compare favorably to a number of its peers operating in the patch as the table highlights.
Surge Energy Val Ratios 200314

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With these multiples being far lower than these larger peers with more mature operations, coupled with the tremendous potential which exists in its assets, Surge Energy is very attractively priced.

4. Pays one of the juiciest dividend yields in the patch

Another compelling reason for investors to consider Surge Energy is its particularly juicy dividend yield, which at 9% is one of the highest in the patch. It is significantly higher than many other companies operating in the patch paying monster dividend yields. Including **Lightstream Resources'** (TSX:LTS)

8.5%, Pengrowth's 7%, **Crescent Point Energy's** (TSX:CPG)(NYSE:CPG) 6.8% and Penn West's 6%.

Importantly investors should note, Surge Energy has only been paying the dividend since August 2013 and has yet to establish a consistent payment history. When coupled with the company reporting a net loss for 2013, it indicates the dividend payment may not be sustainable.

Foolish final takeaway
Surge Energy is an attractive opportunity for investors seeking a high conviction play in the patch that has the potential to offer significant rewards over the longer-term. Not only does it appear cheap in comparison to its more mature peers but it has solid growth potential which should see it unlock considerable value for share holders.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:SGY (Surge Energy Inc.)

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Date
2025/08/23
Date Created
2014/03/20
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