



This Oil Company's Shares Are Set to Soar Even Higher

Description

Even after a strong run in its share price over the last year, which saw **Surge Energy's** ([TSX: SGY](#)) gain 35%, its share price is set to climb to new highs, with a range of catalysts driving improved operational and financial performance.

Record first-quarter 2014 results

For the first quarter 2014, Surge Energy reported a series of record results. This included record funds flow from operations of \$54 million and an operating netback per barrel of \$49.20.

Funds flow from operations grew whopping 47% compared to the previous quarter and more than doubled compared to the equivalent quarter in the previous year. This is an important indicator as to the health of an oil company's operations because it is a capital intensive business and the ability to grow funds flow from operations allows greater capital expenditure while utilizing less debt.

A key driver of this significantly improved performance was a higher operating netback per barrel of crude produced. This netback, a [key measure of profitability](#) for an oil company, grew a massive 24% compared to the previous quarter and 37% compared to the equivalent period in the previous year.

With signs the price of crude is set to remain above \$100 per barrel for the foreseeable future, I expect Surge's netback to remain high and continue growing. The company is focused on implementing operational improvements, which will reduce production expenses and lower transportation costs.

This netback is also well above the industry average netback of \$42 per barrel for oil producers operating in North America and among one of the highest in the patch. It is superior to **Whitecap Resources'** ([TSX: WCP](#)) \$45.80 per barrel, **Penn West Petroleum's** (TSX: PWT)(NYSE: PWE) \$36.67, and **Twin Butte's** (TSX: TBE) \$28.72. It is also marginally lower than \$52.65 per barrel reported by **Crescent Point Energy** (TSX: CPG)(NYSE: CPG) for the first quarter, which is considered to be one of the most efficient operators in the patch.

Acquisitions and discoveries continue to boost crude production

A key catalyst that will continue to drive improved operational performance is Surge Energy's exploration and development program, with the company making a number of acquisitions and oil

discoveries.

In February 2014, Surge Energy acquired a crude asset adding additional production of 1,250 barrels of oil daily of which 97% is made up of oil. The company also entered into an agreement to purchase **Longview Oil** (TSX: LNV) during the first quarter for \$429 million. This is an accretive acquisition, which will add oil reserves of 33 million barrels, almost 6,000 barrels of crude production daily, of which 83% is oil, with an operating netback of over \$44 per barrel of crude produced.

Surge Energy also continues to report solid results from its drilling exploration and development program, with the company completing half of its proposed 2014 drilling program in the first quarter alone. This saw the company report an extraordinary drilling success rate for the first quarter of 100% for the 20 gross oil wells drilled as well as a large crude discovery in Southwest Saskatchewan.

All of these factors bode well for Surge Energy to continue growing crude production, and with crude prices currently over \$100 per barrel, bodes well for significant revenue and bottom line growth.

Another aspect of the company's operations, which suggests it is undervalued, is that its oil reserves (after royalties and discounted by 10%) have a net-present-value before tax of \$1.4 billion or around \$8 per share. This is 20% higher than Surge Energy's current trading price, highlighting the market has yet to fully appreciate the value of the company's oil assets.

Clearly Surge is well placed to continue to growing crude production, through a series of acquisitions coupled with the solid success of its drilling program. When coupled with higher crude prices, with West Texas Intermediate and Brent trading at well over \$100 per barrel, this should translate into significant revenue and bottom line growth.

That is especially true when the company's solid operating netback of over \$49 per barrel is considered in conjunction with the oil production acquired through the purchase of Longview having a netback of over \$44 per barrel of crude produced.

I expect to see Surge Energy's share price continue to appreciate over the short-to-medium term, offering an opportunity for risk tolerant investors.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:SGY (Surge Energy Inc.)
2. TSX:WCP (Whitecap Resources Inc.)

Category

1. Investing

Date

2025/07/26

Date Created

2014/05/21

Author

mattdsmith

default watermark

default watermark