Why Whitecap Resources Is Set to Continue Growth

Description

As an avowed value investor, I am always on the lookout for fundamentally undervalued companies operating in Canada's oil patch. With stronger fundamentals, including higher crude prices and lower price differentials for Canadian crude, set to drive improved financial performances, now is the time to take a closer look at players that are positioned for growth.

Stronger fundamentals bode well for improved financial performance

For the year to date, the price of West Texas Intermediate, the key benchmark crude price for Canadian oil producers, has rallied almost 13% to over $104 per barrel. This is on the back of better-than-expected global economic growth driven by the U.S. and China, coupled with geopolitical concerns in the Middle East and Eastern Europe. It is expected that WTI prices will remain at over $100 per barrel for the remainder of 2014.

Several things bode well for bottom-line growth among players in the patch, including higher crude prices and Edmonton Par's and West Canada Select's discount to WTI closing by 10% for the year to date. These market conditions will be even better for those players that are able to rapidly expand crude production and have a high weighting towards oil and liquids production while remaining firmly in control of costs.

This intermediate light oil producer continues to perform strongly

Over the last year, **Whitecap Resources** (TSX: WCP) has continued to see its share price perform strongly, spiking a healthy 49% as its financial and operational results improved as a result of its dividend plus growth strategy gaining traction.

While Whitecap appears expensive compared to a number of opportunities in the patch with an enterprise value of 11 times EBITDA and price-per-flowing barrel of $199,000, it is well placed to take advantage of an increasingly positive operating environment and stronger fundamentals.

Earlier this year, Whitecap completed an accretive transaction, acquiring a range of light oil assets from **Imperial Oil** (TSX: IMO)(NYSEMKT: IMO) in the Pembina Cardium and Boundary Lake areas for a net consideration of $693 million. This acquisition not only boosted oil production by 6,500 barrels daily but also increased the weighting of its production mix for light crude and non-gas liquids.

The majority of Whitecap's production is weighted towards higher-margin oil and crude liquids, which make up 71% of total production, with all crude production composed of light and medium crude. This allows it to take full advantage of the higher price paid for Edmonton Par over West Canada Select.

By virtue of the quality of its assets, Whitecap is also able to generate considerable operational cost savings and reduce the amount of capital expenditure required to develop them and boost production.

As a result, the company continues to report a solid operating netback per barrel, a key measure of operational profitability, which for the first quarter of 2014 was $45.80. This netback is significantly higher than those reported for the same period by a number of companies some pundits consider value plays, including **Pengrowth Energy** (TSX: PGF)(NYSE: PGH) and **Penn West Petroleum** (TSX: PWT)(NYSE: PWE), which had netbacks for the same period of $29.71 and $36.67 per barrel respectively.

Whitecap also continues to pay a tasty monthly dividend with a yield of almost 5%; with a payout ratio from funds flow from operations of 33%, this is certainly sustainable. This healthy dividend yield will continue to reward investors for their patience as Whitecap continues to expand its core light oil asset base and oil production through organic growth and accretive acquisitions.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:IMO (Imperial Oil Limited)
2. TSX:WCP (Whitecap Resources Inc.)

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