



Want Growth in the Oil Patch? Check Out These 3 Stocks

Description

For investors looking to put money to work in Canada's oil companies, often one of the sector's greatest strengths is also one of its greatest weaknesses.

Allow me to explain a little further. When investors look at companies like **Suncor**, **Imperial Oil**, and **Canadian Oil Sands**, they're getting some of the best names in the business. These companies have proven reserves, competent management, and production targets that number into the hundreds of thousands of barrels a day. These are truly the behemoths of Canada's energy sector.

However, investing in large, mature companies comes with its own set of disadvantages — it's hard to significantly grow the company. Suncor produces more than 400,000 barrels of oil per day from its operations. For it to grow production by 50% would take an investment totaling many billions of dollars. It's just too big to grow at much more than 5% a year.

Investors also have to be careful that they don't invest in smallish companies with little potential to grow. There are many ways to safeguard against this, including buying companies with management that have a track record, and buying companies with actual production, instead of just exploration assets. If you compare it to a skyscraper, getting in on the fifth floor is a better idea than getting in at the lobby. There's still plenty of room before you hit the top.

A company like this that is just ramping up production is **Whitecap Resources** ([TSX: WCP](#)), a \$4 billion producer that has only been public since 2010.

Its growth has been nothing short of spectacular. The company increased its revenue from just \$22 million during 2010 to almost \$350 million in 2013. According to analysts' estimates the growth will continue, with revenue rising to nearly \$1 billion by the end of 2015. Profits have experienced similar growth, rising from virtually nothing in 2010 to \$0.27 per share in 2013, and that was a *disappointing* year.

Whitecap focuses on light oil production mostly in Alberta, but also has operations in northern B.C. and western Saskatchewan. It currently produces just 31,000 barrels of oil per day, and pays investors a \$0.0625 per share monthly dividend, good for a yield of 4.5%.

One thing that could hold the company back is its hedging program. Most of its production is currently promised to customers in the \$95-\$100 per barrel range, slightly below market prices. This could end up being a bad move if the price of crude continues marching higher.

Bonterra Energy ([TSX: BNE](#)) has a slightly different strategy, choosing to focus its production on central Alberta's Pembina Cardium, one of the largest oil fields in the country. During the last two years, the company made two acquisitions that strengthened its position in the area.

Over the last three years, Bonterra has grown revenue by more than 33% annually, and is on pace to do so again in 2014. Earnings haven't quite caught up, but cash flow is solid enough that there are rumblings the company may raise its already lucrative 5.6% yield.

Bonterra has been a growth by acquisition story, and has the strength in its balance sheet to continue. The company has a debt-to-equity ratio of just 0.27 times, far below the industry average.

In the last five years, **Gran Tierra Energy** ([TSX: GTE](#))(NYSE: GTE) has more than tripled its revenue and quintupled its profits, and that may just be the beginning.

The company is sitting on a mountain of cash, which will be close to \$400 million when it completes the sale of its Argentinian assets. Although Argentina does represent the majority of its current production, test wells were just completed in Colombia and Peru, both of which look promising.

Gran Tierra is more of a longer-term play for investors, but there's significant potential in South America. Plus, the company has the cash reserves needed to finance its ambitions in-house, giving investors a growth play without the risk of a whole lot of debt.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BNE (Bonterra Energy Corp)
2. TSX:GTE (Gran Tierra Energy Inc.)
3. TSX:WCP (Whitecap Resources Inc.)

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