



3 Companies in the Energy Patch With Great Upside

Description

While larger names in the patch including **Suncor Energy**, **Canadian Natural Resources**, and **Husky Energy** continue to provide investors with steady dividends and growth, it is the smaller, more exciting oil explorers and producers that offer the greatest potential upside. Let's take a closer look at three smaller players from the patch with solid growth potential.

Recent acquisitions continue to fuel this small-cap's dividend plus growth strategy

Small-cap light oil producer **Whitecap Resources** ([TSX: WCP](#)) continues to offer investors considerable upside despite seeing its share price spike a healthy 45% over the last year. Whitecap's management team has built on the company's success through a series of accretive acquisitions, which continue to enhance its core asset value and boost high-margin production.

The company has already made two significant acquisitions this year that have significantly boosted its oil reserves and production, as well as its exploration acreage. This gives Whitecap oil reserves of 158 million barrels, which before tax and after a 10% discount rate is applied have a value of \$3.3 billion, or \$19 per share, a premium of 27% over its current share price.

However, more compelling for investors is that stronger fundamentals in the patch, including firmer crude prices, a narrowing price differential between Canadian light crude and WTI, and a projected 41% increase in crude production, will significantly boost revenue.

This, coupled with Whitecap's solid margin, or operating netback of \$45.80 per barrel, should result in significantly improved operating profit and a stronger bottom line.

Whitecap also continues to pay a monthly dividend with a juicy yield of 5%. This, in addition to a payout ratio from operating cash flow of 34%, indicates it is sustainable, particularly when the forecast production and cash flow growth is accounted for. In fact, I wouldn't be surprised if management were to hike the dividend later this year, with stronger fundamentals and production expected to significantly boost operating cash flow.

All of these things make Whitecap an appealing high-growth opportunity for investors seeking to cash

in on high crude prices.

This mid-cap has just successfully completed a game-changing acquisition

I am not a huge fan of smaller companies in the patch predominantly focused on oil sands and heavy crude production because of their high development costs and low margins, coupled with a significant price differential to WTI. However, earlier this year heavy oil producer **Baytex Energy** ([TSX: BTE](#))(NYSE: BTE) completed a game-changing acquisition, purchasing Aurora Oil & Gas, including its prime light-oil-rich acreage in the heart of the Eagleford Shale.

This boosted its higher premium light oil production by a massive 20%, and with that production coming from the Eagleford Shale it won't be subject to the discount at which Canadian light crude trades at against WTI. Since the successful completion of the acquisition, Baytex has reforecast its full-year outlook, with 2014 crude production expected to grow by a massive 31% compared to 2013. Much of that additional production is expected to be higher-margin light crude from the Eagleford Shale.

This acquisition and stronger industry-wide fundamentals bode well for Baytex to significantly boost revenue, cash flow, and its bottom line. What makes it an even more attractive proposition is its juicy dividend yield of 6%, which will handsomely reward investors as its share price appreciates.

This struggling intermediate producer might just be ready to pop

It was in late 2013 when **Lightstream Resources** (TSX: LTS) yet again disappointed the market by slashing its dividend by 50% and taking a knife to its capital expenditures, all as it battled to rebuild its shattered balance sheet and reduce leverage.

However, the strategy is certainly starting to pay off, and highlights Lightstream's potential. Not only is it generating one of the highest margins among its peers per barrel of crude produced, with a netback of \$56 per barrel, but it has also successfully sold non-core assets valued at \$253 million this year already. The proceeds of these sales will be used to pay down debt, creating interest savings of \$9 million.

More importantly, the company has another divestment valued at \$98 million underway and recently brought its new Swan Hills battery online, which will facilitate growth in the company's oil production. Even more importantly, despite the number of divestments completed since initiating the restructure in 2013 and the significant cuts in capital expenditures, 2014 oil production is expected to fall by only a modest 2%-7% compared to 2013.

When all of these factors are considered in conjunction with stronger industry-wide fundamentals, it is clear that Lightstream's recovery is progressing strongly and that it is well positioned to see a significant improvement in its 2014 financial performance. Investors will also continue to be rewarded for their patience with the company paying a tasty dividend yield of 6%, which is among the highest in the patch.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)
2. TSX:WCP (Whitecap Resources Inc.)

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