



2 Companies From the Energy Patch With More Than 30% Potential Upside

Description

Companies operating in the energy patch have seen their share prices pummeled as the price of crude has come crashing back to earth with a resounding thud to now be at its lowest point since March 2010.

Over the last three months the **S&P TSX Capped Energy Index** — a weighted index composed of the 58 largest energy companies listed on the TSX — has plunged a massive 21%. Yet the **S&P TSX 60 Composite Index** has only dropped a modest 6% for the same period. This I believe has created a range of buying opportunities for long-term investors seeking deep-value investments.

Let's take a closer look at two companies I believe are now trading at considerable discounts to their true indicative fair value, offering investors potential upside in excess of 30%.

Lightstream Resources Ltd.

Light oil producer **Lightstream Resources Ltd.**'s (TSX: LTS) share price has been hit hard, almost halving over the last year. This can be attributed to weaker oil prices along with the market having lost confidence in Lightstream after it was forced to slash its dividend and capital expenditures to reduce leverage and preserve capital at the end of 2013.

As a result, Lightstream now appears incredibly cheap, trading with an enterprise value of a mere four times EBITDA and 18 times its oil reserves. This is despite the company's considerable progress with its turnaround strategy, completing a range of non-core asset sales ahead of schedule and successfully making over its balance sheet.

More importantly, despite these asset sales, Lightstream still holds a portfolio of high-quality, low-decline-rate oil assets with oil reserves of 173 million barrels.

The company continues to generate one of the best operating margins in the patch, with a netback of \$57.49 per barrel for the second quarter of 2014. This netback is superior to the majority of players in the patch and is higher than the industry wide average for oil companies operating North America of \$42 per barrel.

More importantly as Lightstream's production continues to mature, decline rates will fall further reducing the amount of cash required to sustain production. This will free up additional cash flow, which can be directed to boosting cash reserves and further paying down debt.

With a dividend yield of 10% Lightstream pays one of the juiciest yields in the patch and when coupled with an overall payout ratio of 14% it certainly appears sustainable.

Clearly, Lightstream is underappreciated by the market and with such a cheap valuation, it may only be a matter of time before it is considered a takeover target. This would certainly act as a catalyst to drive its share price higher.

Crescent Point Energy Corp.

There is growing concern among analysts that the recent softness in crude prices will hit light oil producer **Crescent Point Energy Corp.** (TSX: CPG)(NYSE: CPG) hard and threaten its juicy dividend yield. But I believe after seeing Crescent Point's share price plunge on the back of weaker industrywide fundamentals — to now at 14% over the last year — that it represents a solid long-term opportunity.

Crescent Point has built a portfolio of high-quality oil assets with over 640 million barrels of oil reserves, of which only around one-third is developed and producing. This reduces its need to continue to acquire oil assets in order to boost production and leaves it well positioned to further grow production organically. Already, on the back of acquisitions during this year, it has upwardly revised its 2014 production guidance and this leaves Crescent Point well positioned to maintain cash flow despite softer crude prices.

It also has one of the best operating margins in the patch with a second-quarter netback of \$54.75 per barrel. This again leaves plenty of room for Crescent Point to maintain profitability and cash flows even after the precipitous plunge in crude prices.

These aspects of Crescent Point's operations also significantly contribute to the sustainability of its dividend, which with an impressive yield of over 7% is a considerable incentive to invest in Crescent Point.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

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