2 Energy Companies With Potential Upside Greater Than 30%

Description

A number of energy companies with strong underlying businesses, solid balance sheets, low levels of leverage, and profitable operations have been caught up in the hysterical sell-off of energy stocks.

This, I believe, has created a number of attractive investment opportunities for long-term, value-hungry investors. Let's take a closer look at two energy companies that currently offer solid potential upside.

Gran Tierra Energy Inc.

Intermediate oil producer **Gran Tierra Energy Inc.**'s (TSX: GTE)(NYSE: GTE) share price has been hit hard, plunging 39% over the last year because of softer crude prices. The market is also heavily penalizing it because of the higher degree of perceived risk associated with the company. This is because of its relatively small size coupled with its key oil assets being located in the higher-risk jurisdictions of Colombia and Peru.

But I believe this perception of risk is significantly overblown.

Both Colombia and Peru have made significant strides in stabilizing their internal security environments. They have also increased the transparency of their regulatory regimes and implemented policies aimed at attracting and protecting foreign investment. Gran Tierra has also reduced its exposure to geopolitical risk by divesting itself of its higher-risk Argentine oil assets earlier this year.

More importantly, for a smaller oil producer, Gran Tierra maintains a solid balance sheet that is debt-free. It also has sufficient cash on hand and operating cash flow to fund its exploration and development program.

As a result, I now believe Gran Tierra is very attractively priced with an enterprise value of a mere three times EBITDA and 11 times oil reserves. It is also trading well below its book value, with its oil reserves alone valued at over $7 per share or a 33% premium over its current share price. Each of these characteristics highlights the solid potential Gran Tierra offers patient long-term investors.

Husky Energy Inc.

Integrated energy major **Husky Energy Inc.** (TSX: HSE) continues to see its share price lag behind its peers, down by 9% over the last year. This is despite Husky reporting solid operating results over the course of the year, and I think it has created an attractive investment opportunity.

The company's successful operational makeover is now paying dividends for investors and now sees CEO Asim Gosh discussing the potential for Husky to make a transformational acquisition.

Even with oil prices at their lowest point since March 2010, Husky still reported solid third-quarter 2014 results despite the difficult operating environment. Crude production volumes along with downstream refining and upgrading volumes grew impressively over the period when compared to the equivalent quarter for 2013.

Natural gas sales from its crucial South China Sea Liwan Gas project also grew, up a healthy 22% compared to the second-quarter 2014.

Husky also continued to report a solid operating margin for its upstream or oil producing operations, with a netback of $43.05 per barrel.

But more importantly, with North America expected to experience a glut of light sweet crude over the coming years because of the U.S. shale oil boom, Husky's geographically diverse asset base allows it to access alternative energy markets. This includes the increasingly important and lucrative Chinese and Southeast Asian markets. This reduces the company's dependence on U.S. refining markets, allowing it to avoid some of the impending fallout expected to impact Canadian oil producers as U.S. production grows.

I expect Husky to continue to deliver solid operational results because of its diverse portfolio of quality oil assets that are in various stages of development. These include the Rush Lake heavy thermal oil project, the ongoing expansion of the Liwan gas project, and several light oil projects in the Jeanne d'Arc Basin in offshore Newfoundland and Labrador. All of these projects remain on schedule, with the majority expected to commence first production between now and the end of 2015.

For all of these reasons, I believe Husky is attractively valued and offers patient long-term investors considerable potential.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:GTE (Gran Tierra Energy Inc.)

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Date
2025/08/20
Date Created
2014/10/30
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