



2 Deep-Value Bargains for Contrarian Investors in Canada's Energy Patch

Description

With crude prices continuing to fall, the sell-off of energy stocks continues unabated. The **S&P TSX Capped Energy Index** – a weighted index of the 58 largest oil companies listed on the TSX – is now down 11%, year to date.

As a deep-value contrarian investor and a firm believer that “the time to buy is when there’s blood in the streets,” I believe this has created some exceptional bargains among Canada’s oil companies.

Let’s take a closer look at two companies that offer investors considerable potential upside as oil prices rebound.

Lightstream Resources Ltd.

Intermediate oil producer **Lightstream Resources Ltd.’s** (TSX: LTS) share price has been hammered, plunging a massive 58% over the last year, despite a successful makeover of its balance sheet. It now trades at some very attractive valuation metrics. These include an enterprise value of a mere four times EBITDA and 14 times its oil reserves, along with a price per flowing barrel of \$73,000.

Lightstream has also rebuilt its shattered balance sheet, with total debt at the end of the third quarter 2014 of \$1.6 billion, which is an impressive 31% reduction compared to the corresponding quarter in 2013. This was achieved on the back of Lightstream successfully completing \$729 million in asset sales ahead of schedule.

There’s also a significant reduction in the degree of investment risk associated with Lightstream; net debt is now a comfortable 2.3 times operating cash flow. This reduction in debt has also created \$25 million in annual interest savings, with those funds now able to be used for more productive activities.

Despite the plunge in crude prices, Lightstream continues to generate a healthy margin, with a third-quarter netback \$48.67 per barrel. This is among the highest in the patch and a testament to Lightstream’s high-quality, low-decline-rate oil assets.

With a dividend yield of 18% after the recent sell-off, Lightstream now has one of the highest dividend

yields in the patch, and such a high yield is normally concern for alarm. But with a dividend payout ratio of 82% and a total payout ratio of 15%, the dividend certainly appears sustainable. Investors will be handsomely rewarded for their patience as they wait for Lightstream's share price to rebound over the long term.

Pacific Rubiales Energy Corp.

Colombia's largest independent oil explorer and producer, **Pacific Rubiales Energy Corp.** (TSX: PRE), has been hit hard by the sell-off in energy stocks, with its share price down 22% over the last year.

In part, it can also be attributed to the market's higher perceived degree of risk regarding its operations, with the majority located in the riskier jurisdictions of Colombia and Peru. But both countries have far lower geopolitical risk than commonly assumed by investors.

This plunge in its share price has Pacific Rubiales trading at some attractive valuation metrics. These include an EV of a mere three times EBITDA and 17 times its oil reserves, in conjunction with a price per flowing barrel of \$60,000.

A key strength of Pacific Rubiales is its diversified portfolio of quality oil assets, the majority of which are located in proven oil-producing basins in South America. The quality of those assets can be seen with the solid operating netback of \$62.76 per barrel reported for the second quarter of 2014. This is significantly higher than its peers operating in North America, where the average netback is around \$24 per barrel. Such a high netback also leaves plenty of juice for Pacific Rubiales to absorb lower crude prices without cash flow and profitability being affected.

The quality of Pacific Rubiales assets can also be seen with its stunning drilling success rate of 72%. This is responsible for it doubling its net light oil production over the last year and bodes well for future growth of Pacific Rubiales' oil reserves and production.

Patient investors will continue to be rewarded by Pacific Rubiales' sustainable and tasty 4% dividend yield as they wait for its share price to rebound on the back of stronger oil prices.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FEC (Frontera Energy Corporation)

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