Does Bonterra Energy Corp. Offer Investors a Solid Bet on a Rebound in Oil Prices?

Description

Investing in small-cap stocks can be one way of giving your portfolio a much-needed boost in difficult times, with many of them set to deliver outsized returns when compared to larger stocks. One small-cap energy stock that stands out after the carnage created by the oil rout is **Bonterra Energy Corp.** (TSX:BNE).

Now what?

Bonterra's results for the full year 2014 did not meet *The Street's* expectations, with net earnings falling by 42% year over year to $1.21 per share. This significant drop can be attributed to markedly weaker commodity prices, with oil plunging to its lowest point in five years during the final quarter of 2014.

Production costs over the course of the year also edged higher to be up by 9% year over year, although the company expects these to fall in 2015 as it focuses on cutting costs and driving synergies across its operations.

More importantly for investors, Bonterra has amassed a sizable and high-quality asset base with oil reserves of 80 million barrels that are 71% weighted to crude and natural gas liquids. These reserves have been independently assessed to have a value of $1.3 billion before tax or $41 per share. This represents a 15% premium over its current share price, highlighting that the company is undervalued.

More importantly, the company has a conservative approach to debt, and despite recently completing a $172 million acquisition in the Pembina Cardium formation, it has a low degree of leverage with net-debt of less than one times cash flow. This gives Bonterra considerable financial flexibility. The importance of this can't be stressed enough in a difficult operating environment dominated by weak crude prices.

The quality of this asset base has also allowed Bonterra to continue growing its oil production. For 2014 production grew by 8% and I expect this to continue into 2015, particularly with it having acquired an additional 1,800 barrels of crude production daily as part of its latest Pembina acquisition. This will help to make up for any shortfall in cash flow caused by the oil rout.

Of greater interest to investors is Bonterra's dividend that currently yields a juicy 5%. Even in the current harsh operating environment, this dividend appears to be safe, as the company has already accepted reality and slashed it by 50% earlier this year. Nonetheless, with Bonterra committed to maintaining the dividend at 50-60% of cash flow, a further dividend cut is likely should oil prices fall further or remain at current lows for a sustained period.

So what?

With Bonterra's share price off by 34% over the last year, it does appear to be attractively priced with an enterprise value of six times EBITDA and 17 times its oil reserves. That being said, it is still subject to the same risks that any small-cap oil producer is subject to in this harsh operating environment, despite its solid balance sheet. However, I do believe that Bonterra offers investors an opportunity to invest in a quality oil company that has made all the right moves thus far and should pay off over the long term.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:BNE (Bonterra Energy Corp)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/15
Date Created
2015/03/24
Author
mattdsmith