



Gran Tierra Energy Inc. Shapes Up as an Attractive Play on Higher Oil Prices

Description

The energy patch continues to garner attention, with many industry insiders betting that oil prices will rebound in the second half of 2015.

However, while I believe that a rebound in crude may be some way off, it shouldn't prevent investors from taking advantage of the bargains that now exist in energy stocks.

Now what?

One oil explorer and producer that stands out for all the right reasons is South American-based **Gran Tierra Energy Inc.** ([TSX:GTE](#))(NYSE:GTE).

It has had a rough time lately, having bet heavily on recent oil finds in Peru that are now not as promising as initially expected. This made Gran Tierra re-evaluate those oil assets and reclassify them as contingent resources. The end result was a significant drop in Gran Tierra's oil reserves. Gran Tierra's experience highlights the risks associated with oil exploration and production.

However, even after this revision it still has an impressive asset base consisting of 170 million barrels of oil net after royalties that are predominantly weighted to oil. This leaves it well positioned to benefit from a rebound in the price of crude and shields it from the uncertainty surrounding natural gas prices.

Gran Tierra also has a distinct financial edge over its North American upstream peers as it is able to access Brent oil pricing. Brent, which is the international benchmark oil price, trades at an 11% premium to the North American benchmark West Texas Intermediate. This allows Gran Tierra to generate more revenue per barrel of crude produced, as well as a higher margin for each barrel.

More importantly, in the current harsh operating environment, Gran Tierra continues to maintain a virtually debt-free balance sheet. This, combined with its cash and cash equivalents totaling US\$332 million at the end of 2014, gives it a degree of financial and operational flexibility that many of its more heavily indebted North American peers can only dream of.

Gran Tierra has also taken some bold moves to significantly reduce its operating costs. These include

reducing its employees by 20% and entering into negotiations with suppliers to achieve further cost savings. Its cost structure is also benefiting from the depreciation of the Colombian peso, which has come under pressure from lower oil prices, because crude it is the countries single largest export.

So what?

Gran Tierra shapes up as solid opportunity for investors to make a long-term bet on a rebound in oil. Not only is the company well positioned to weather the current storm in oil prices, its low-cost structure and pristine balance sheet make a solid levered play on oil prices. Even a slight bump in oil prices should translate into an appreciable gain in its share price.

This investment, however, is not risk free. If oil prices remain low for a sustained period, there will be a significant impact on Gran Tierra's financial performance. Plus, it also operates in an emerging economy that has in the past been subject to considerable political risk.

CATEGORY

1. Energy Stocks
2. Investing

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1. Editor's Choice

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

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