



## The Market Loves Raging River Exploration Inc.

### Description

Despite being a Canadian-based crude oil and natural gas producer, shares of **Raging River Exploration Inc.** (TSX:RRX) have performed incredibly well in the face of falling commodity prices.

Over the past 24 months, oil prices have fallen by roughly 70%. Meanwhile, shares of Raging River have *increased* 28%. While competitors are struggling to secure additional financing to plug cash losses, Raging River is finding tremendous amounts of investor interest.

Last week, it announced its intention to raise \$86.5 million by selling 10 million shares. Two hours later, in response to mounting interest, it hiked the issue to 11 million shares for \$95.2 million.

How is Raging River been able to navigate the current crisis so well, outperforming nearly every peer in the industry?

### Experienced management

Raging River's management team has consistently shown an ability to generate outsized returns for shareholders.

Their two projects before Raging River (Wild Stream Exploration and Wild River Resources) were both sold to **Crescent Point Energy Corp.** for big gains. It wasn't just a matter of lucky timing either. Shareholders of Wild River Resources experienced average annual returns of 36%, despite the company being sold at depressed prices in 2009. Shareholders of Wild Stream Exploration experienced 39% annual returns until the sale of the company in 2012.

Raging River is yet another chance to piggyback off a management team that clearly knows how to create value. Company executives own about 20% of diluted shares, so they've put their own money on the line.

### Fundamentals look strong

Management's previous projects were typically sold after the company developed its low-cost reserves

and boosted production significantly. Raging River looks no different. Since 2012 production has grown every year from 2,277 barrels per day to 13,715 barrels per day in 2015. Meanwhile, total reserves have grown from 4,473 mboe in 2012 to 24,530 mboe today.

Thanks to its focus on low-cost assets, profitability remains impressive even with low oil prices. Last year it realized an average selling price of \$49 per barrel and still managed to make \$35 in profit for every barrel sold. Even if oil prices remain near \$30 for the rest of the year, Raging River can still make money.

Source: Raging River press announcement

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### Are shares getting pricey?

In its filings, management includes a very helpful shorthand valuation to estimate how much shares are worth. The calculation includes its producing assets and untapped reserves, as well as any debt obligations.

As of last quarter, management estimates Raging River's assets as being worth \$7-9 a share. With the stock price up to \$9.20, it looks like the market has placed a premium on the company given management's proven history of success. Additionally, many investors have probably reallocated funds to the company as it's one of the only operators in the space that can almost certainly withstand a multi-year downturn.

Just six months ago, shares traded all the way down to \$6.77. Perhaps it would be best to wait for another dip to get a bigger margin of safety in comparison to the value of the company's assets. If the valuation comes down again, Raging River is a fantastic bet for any energy investor.

### CATEGORY

1. Energy Stocks
2. Investing

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