



3 Reasons Why Gran Tierra Energy Inc. Is Among the Best Ways to Play Crude

Description

Colombian-based intermediate oil producer **Gran Tierra Energy Inc.** ([TSX:GTE](#))(NYSE:GTE) is fast shaping up as the best way to play the long-awaited rebound in crude in the view of a number of analysts. This positive outlook comes after years of over promising and under delivering for reasons beyond the company's control.

Let's pop the hood on Gran Tierra and take a closer look at why it is becoming an increasingly popular stock pick.

Now what?

Firstly, Gran Tierra holds a high-quality asset base that was bolstered through the acquisition of Petroamerica Oil Corp. in late 2015, which gave it reserves of 66 million barrels of crude.

This acquisition was accretive for Gran Tierra. It was also a bargain; it paid US\$84 million, or US\$18.71 per barrel of proved oil reserves, well below the market price for crude and other similar transactions. With the acquisition, Gran Tierra became the premier landholder in Colombia's southern Putumayo basin, which has become the fastest-growing oil basin in the Andean nation.

Secondly, even after making the Petroamerica acquisition, Gran Tierra remains debt free and has a high level of liquidity. It finished 2015 with US\$145 million in cash, US\$97 million in working capital, and US\$200 million remains undrawn from its credit facility.

Importantly, even after accounting for weak oil prices, Gran Tierra expects to generate between US\$95 million and US\$105 million in funds flow from operations for 2016 at an assumed average price of US\$40 per barrel.

This is quite impressive in the current operating environment and highlights the quality of Gran Tierra's assets, its solid focus on controlling costs, and the resilience of its operations to the sustained weakness in crude. It also means that Gran Tierra will be able to fund its operations from its cash flow and leave its pristine balance sheet intact.

Finally, the impending peace with FARC, Colombia's largest rebel group in the decades' long civil war, will lead to cost reductions and significantly less production outages.

You see, one of Gran Tierra's key dependencies is the use of the trans-Andean pipeline, which links the oilfields in the Putumayo basin to the Pacific Coast port of Tumaco. This pipeline has been a frequent target of attacks by Marxist guerilla groups, notably FARC, which created outages that forced Gran Tierra to store the crude it produces, use more costly road transportation, and curb production.

These have all had an impact on Gran Tierra's bottom line because of higher costs and lost revenue. The mounting progress in the peace dialogues between the Colombian government and FARC has already seen the volume of attacks fall sharply. Now that it's increasingly likely that a peace deal will be struck, the number of outages will fall even further.

So what?

Investors are right to exercise caution regarding energy stocks, particularly as it is clear that oil prices will [not rise substantially](#) any time soon. Nonetheless, Gran Tierra offers a solid opportunity to invest in oil and its long-awaited recovery because of its rock-solid balance sheet, high-quality assets, and the ability to access premium Brent pricing.

It's trading 59% lower than it was prior to the oil crash and, with an enterprise value of five times EBITDA, it is attractively priced.

CATEGORY

1. Energy Stocks
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TICKERS GLOBAL

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

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