



Will Gran Tierra Energy Inc. Double?

Description

Now that oil prices are rising, many investors are looking to gain exposure to energy companies with the most upside. With a market cap of just \$1 billion and shares still down 60% from their 2014 highs, is **Gran Tierra Energy Inc.** ([TSX:GTE](#))(NYSE:GTE) an option for oil bulls?

generate_fund_chart

If oil prices rise, Gran Tierra will follow

As you can see from the chart above, ever since the latest oil crisis began, shares of Gran Tierra have been highly correlated with movements in oil prices. Looking at how its management team has positioned the business, it's a good bet that the stock will continue to move higher should oil markets continue to rebalance.

Importantly, Gran Tierra enjoys the major advantage of growing production.

In a period of swooning oil prices and over-leveraged balance sheets, many operators have been forced to dramatically cut capital expenditures to preserve financial solvency. Numerous major oil producers in Canada have seen production growth plateau considerably and, in some cases, turn negative.

Gran Tierra, meanwhile, forecasts 2016 production to be 27,500–29,000 barrels per day, an increase of roughly 20% over last year's results. A growing production profile will allow Gran Tierra to magnify its profit gains should oil prices move higher in the coming years.

The biggest contributor to Gran Tierra's flexibility has been its conservative approach towards financing the business. While many peers today have debt loads that are double or triple the size of their market caps, Gran Tierra has virtually no long-term debt. It also has a \$180 million cash hoard and \$200 million in undrawn, committed credit facilities.

To maintain its current projects, the company would only need to spend \$64 million in capital expenditures. Even if oil prices fell back towards US\$30 a barrel, Gran Tierra investors would have

little reason to worry over the long term.

Top-tier executives

The ability to grow its business in a time of turmoil is a testament to the company's management team, which has operational and technical experience across North America, Latin America, Asia, Europe, the Middle East, and Africa. The same team previously led Caracal Energy, which was ultimately bought out for US\$ 1.8 billion.

Gran Tierra's CEO has previously led four different companies. The average annual shareholder return at those companies was 45%. Those are enviable, proven results.

A solid, little-known opportunity

While other investors are squabbling over whether or not to invest in oil giants like **Canadian Natural Resources Limited** or **Imperial Oil Limited**, savvy investors are looking at under-followed gems like Gran Tierra Energy, which has more upside at a reasonable valuation. If you believe oil prices will continue to rebound in the coming years, Gran Tierra Energy is a great way to play the move.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Date

2025/08/18

Date Created

2016/05/18

Author

rvanzo

default watermark