Tourmaline Oil Corp.: A High-Growth Energy Company

Description

In August, **Tourmaline Oil Corp.** (TSX:TOU) reported second-quarter EPS of -$0.34. Revenues fell 17.3% versus last year–down to $247 million.

Looking at the company's price performance, it doesn't seem as if the market cared much about the seemingly poor results. Since the year began shares are up over 66%. In August alone the stock was up nearly 10%.

What the market is likely paying attention to is the long-term growth story that is starting to play out at Tourmaline.

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Infrastructure is in place for big gains

Full projected production of over 250,000 barrels a day makes it not only one of Canada's largest gas producers, but also one of the fastest growing. Reserve growth has also kept pace, ensuring that future production gains can be maintained. Management also likes to highlight the company's falling cost base–a big contributor to consistently rising cash flow numbers.

"You got to chip away at all of those [costs] and try to be profitable and one of the key for us is to finance, build and control our own infrastructure–that's what gives you the low op cost, and you can survive these low prices," said Michael Rose, CEO of Tourmaline Oil Corp.

On paper, Tourmaline is doing everything right.

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Image source: Tourmaline Oil Q2 presentation

Natural gas … finally to the rescue

Tourmaline's natural gas exposure could quickly go from financial drag to company hero.

Natural gas prices have averaged less than $4.00 per mcf since 2009, spending extended periods below $2.50. This has forced many companies with production costs above $3.00 out of business. Tourmaline, meanwhile, can remain profitable around $1.50 per mcf.

Being one of the lowest-cost producers means Tourmaline is having no trouble managing the current pricing environment. Lately, rebounding prices have allowed it to enjoy higher profit margins. Tourmaline remains focused on its Alberta Deep Basin and B.C. Montney properties, meaning low costs should continue.

Since March, natural gas prices have shot up from $2.10 per mcf to nearly $3.00 per mcf. Tourmaline's CEO is planning on this price action continuing. There's plenty of reasons to believe he's right. According to Tourmaline:

- U.S. producers have publicly announced a 2016 gas production decline estimated at 2.5 bcf/d.
- Approximately 100 natural gas directed rigs are currently active in the U.S.–the lowest since 1999.
- The activity-related U.S. oil production decline should yield an incremental one to two bcf/day of associated gas decline.

If that comes to pass, the company could be in store for major profits. "If gas got to $4, we will have tremendous earnings–it's been painful with various oversupply scenarios. In the long term, we truly believe gas is going to get there," Rose commented.

If you're as bullish on natural gas prices as Tourmaline's CEO, considering buying shares for the long term.

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1. TSX:TOU (Tourmaline Oil Corp.)

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