



Tourmaline Oil Corp.'s Natural Gas Operations Will Shine in 2017

Description

Tourmaline Oil Corp. ([TSX:TOU](#)) is one of several mid-cap oil companies set to perform well in 2017 thanks to the recovery of oil prices, but its natural gas operations will be even more important in the new year.

The Calgary-based company could reap the benefits of a natural gas rally that could last throughout the year and beyond, according to bulls. Natural gas is essential to heating homes and providing electricity, and intermediate energy companies north of the border could play an important role in the U.S.

Stateside, the natural gas market is in high demand due to a limited amount of American companies offering the source of energy. The amount of natural gas stored in the U.S. could drop to a figure below its five-year average, resulting in prices that will benefit Tourmaline and other natural gas producers.

As far as its oil business goes, the Alberta energy company could see an expansion in the form of assets that could be attained at a low price. Tourmaline and similar companies may unload non-core assets and turn their focus towards their essential oil assets, taking advantage of low oil prices that are set to rebound. Immediate access to capital is a big reason why this company is set to succeed in its oil business as well.

Tourmaline recently provided an update of its recent activities, including third-quarter plans to run five to six rigs in its Alberta Deep Basin as well as several other rigs in its Peace River Charlie Lake oil play and its B.C Montney complex. The company expects to reduce costs, following its 2016 initiative that saw it cut drilling costs by 10%. The energy producer could reduce these expenses by a further 10% in 2017.

Its credit capacity is currently at \$2.1 billion — \$700 million of which is not being used at the moment. Apart from reducing costs, Tourmaline expects its debt levels to decline in the coming months as the company's cash flow expenses are lower in these three months compared to the second quarter.

The company's production will increase as well in both its oil and natural gas assets. A move that will see production ramped up is the November acquisition of Shell Oil Company assets in the Alberta

Deep Basin and Montney Basin for \$1.369 billion. This asset will churn out 24,850 barrels of oil equivalent per day (boepd).

The oil producer will also drill 13 horizontals on the Montney assets this year as well as do drilling inventory of 2,147 locations between the Deep Basin and Montney assets. Overall, Tourmaline expects between 250,000 and 260,000 boepd, while increasing this figure to 310,000-320,000 in 2018.

Seven of eight analysts covering TOU stock rate it a "Buy," while the other one calls the company a "Strong Buy." The firms have reached an average price target of \$41.39 as of January 21. The stock has dipped 11.9% year-to-date, but momentum is slowly shifting in the other direction as TOU gained 1% on January 20. The intermediate energy company has a market capitalization of \$8.57 billion.

Tourmaline will soar once oil prices begin surging again, but the natural gas rally is what will really get TOU going for years to come. With lower costs, reduced debt levels, and stronger core assets, this mid-cap energy stock has a bright future ahead.

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