



A Top Energy Stock With up to 58% Upside Potential

Description

When it comes to energy stocks, you'll probably think of big names such as **Suncor Energy Inc.** and **Canadian Natural Resources Limited** first. They offer yields of 2.5% or higher and are more stable than smaller names for exposure to the energy sector.

However, there are other names, which can deliver meaningfully more appreciation than Suncor Energy and Canadian Natural Resources if you're willing to take on more risk.

One particular name which stands out with a potential for exceptional gains is **Spartan Energy Corp.** (TSX:SPE). The shares look especially attractive after declining about 20% from its recent high.

A little on Spartan Energy's history and management

Spartan Energy was formerly known as Alexander Energy. A few years ago, it went through recapitalization financing and hired a new management team.

The leaders of the management team have mostly remained the same. Richard McHardy is still the president and chief executive officer. As well, the same group of talents hold the vice president roles for operations, exploration, engineering, and geology. Only the chief financial officer has changed.

McHardy has been a founder of several public oil and gas companies and has extensive experience in leadership roles in the industry.

oil, petroleum refinery

The business

Spartan Energy is a small-cap oil and gas exploration company. In southeast Saskatchewan, Spartan Energy produces Mississippian light oil. In another area of Saskatchewan, it produces Viking light oil.

Since 2014, Spartan Energy has primarily funded acquisitions for growth with additional equity offerings. So, shareholders should watch the per-share cash flow growth over time to see if the

investments are creating value for them.

The company now produces more than 20,000 barrels of oil equivalent per day with a focus on oil (93% oil and liquids).

Why invest?

Spartan Energy is one of the largest light-oil-producing companies in Saskatchewan. It focuses on developing an asset base which can deliver repeatable, low-risk growth while generating free cash flow in different commodity price environments.

Management believes it can grow its production per share by 10-12% per year in the foreseeable future. This will eventually be reflected in its cash flow generation.

At \$2.85 per share, Spartan Energy trades at a price-to-operating-cash flow ratio of about 8.7. It is priced at a discount compared to its growth potential.

In fact, the **Thomson Reuters** analyst consensus of 13 analysts has a mean 12-month price target of \$4.56 per share and a low 12-month price target of \$4 per share.

Spartan Energy has the potential to appreciate 38-58% in the next year and makes an attractive growth investment in the oil and gas space if you're willing to take on higher risk by investing in a smaller company.

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