



## Don't Miss This Contrarian Bet on Oil

### Description

Oil continues to whipsaw wildly because of rising inventories and fears that OPEC will fail to maintain the production cuts implemented earlier this year. This is having a sharp impact on the value of energy stocks, triggering yet another sell-off as investors brace for a protracted decline in prices.

While opportunities abound for investors seeking to make a contrarian bet on crude, recent events emphasize the need for investors to exercise caution.

One energy stock that stands out as a credible candidate to bet on higher oil prices over the long term is **Gran Tierra Energy Inc.** ([TSX:GTE](#))(NYSE:GTE). Not only does it possess many notable attributes that will allow it to survive lower prices, but it also completed a transformative acquisition in 2016 that leaves it well positioned to benefit from higher oil prices.

### Now what?

During 2016 Gran Tierra completed four strategic acquisitions in Colombia, the most significant being the US\$525 million purchase of PetroLatina. This added 469,000 acres to Gran Tierra's already extensive Colombian landholding, boosted oil reserves by 53 million barrels, and boosted production by 5,300 barrels daily.

Such a needle-moving purchase made Gran Tierra the dominant landholder in the prolific Putumayo basin in southern Colombia and significantly expanded its drilling inventory while substantially enhancing its exploration upside.

The strength of Gran Tierra's position can be seen from its solid 2016 results.

Royalties shot up by a remarkable 19%, while operating costs fell by just under 9%, allowing Gran Tierra to generate an operating netback of US\$16.75 per barrel. That is particularly important for investors to note, because operating netback is a key measure of profitability for an oil company's operations.

Even after crude fell to its lowest price in over a decade in early 2016, causing Brent (the international

benchmark price) to average just US\$44 per barrel over the course of the year, Gran Tierra was still capable of delivering a strong netback.

The intermediate oil producer is attractively priced. Its last traded price of \$3.47 per share is almost half of the independently determined value of its oil reserves of \$6.55 per share, highlighting the considerable upside on offer.

Another characteristic that makes Gran Tierra a solid opportunity is its clean balance sheet with net debt of US\$172 million, or a mere 1.4 times EBITDA.

It is also well positioned to take full advantage of higher oil prices.

The company plans to grow 2017 oil production by at least 25% and drill between 20 and 23 wells. Given the strong success rate already experienced and the quality of its acreage, it is likely that Gran Tierra's drilling program will meet with considerable success over the course of the year. That program will be funded internally from cash flow, meaning that Gran Tierra will retain that pristine balance sheet.

The peace deal between the Colombian government and the largest belligerent group in that nation's civil war will also benefit Gran Tierra. It will reduce the likelihood of production outages due to attacks on energy infrastructure, especially pipelines. Along with Gran Tierra's focus on cost reductions, transportation as well as operating expenses will fall further.

### **So what?**

If anything, I expect Gran Tierra to unlock value for investors over the course of 2017 and deliver some solid results during the year. In conjunction with higher oil prices, this will lift the company's bottom line and should cause its stock price to appreciate, making now the time for investors to add the company to their portfolios.

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1. Energy Stocks
2. Investing

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1. Editor's Choice

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