1 High-Growth Oil Stock Primed to Surge Higher

Description

Oil is rallying as the likelihood of the historic OPEC deal to cut production remaining in place increases. Both Saudi Arabia and Russia have stated that they are in favour of continuing with the cuts to address the global supply glut, reduce oil inventories, and bolster prices. Some OPEC members have even discussed implementing deeper cuts to drive prices higher at a faster rate.

This is all good news for Canada's embattled energy patch, where the prolonged slump in crude has had a sharp impact on investments, operational activity, and stock prices. While investors betting on higher oil tend to focus on the larger upstream and integrated energy stocks, it is smaller upstream producers that offer the greatest potential.

An appealing small-cap stock to play the positive outlook for crude is **Raging River Exploration Inc.** (TSX:RRX), which is down by almost 25% for the year to date.

Now what?

Raging River's operations are focused on the Dodsland Viking oil formation in Saskatchewan. By the end of 2016, it reported oil reserves of almost 94 million barrels, which is an impressive 23% year-over-year increase. These reserves have been independently assessed to have a net asset value, after deducting debt and applying a 10% discount rate, of $8.35 per share, which is almost 7% higher than Raging River's current price.

The company has a remarkable history of growing its oil production. By the end of the first quarter 2017, average daily production had more than doubled from where it was for the same quarter in 2014 to 22,755 barrels. Such outstanding production growth will continue for the foreseeable future because of the tremendous exploration upside possessed by Raging River's Viking acreage. It has a sizable drilling inventory of over 3,000 locations across that acreage.

Furthermore, at the end of the first quarter 2017, Raging River boosted its capital budget by 10% from its original annual guidance to $340 million. When these factors are combined with its enviable history of exploration success, Raging River's oil reserves will grow further.

Even the latest dip in oil prices represents little risk for the company.

You see, while its 2017 budget is based on an average price of US$54 per barrel for West Texas Intermediate, it has been stress tested to as low as US$45 per barrel with no adverse effects on production or its planned spending. This means that even if crude dips again during 2017, Raging River can sustain its exploration and development program, allowing it to not only offset natural decline rates, but to also expand its reserves.

The reason for this is its disciplined approach to managing the risk of lower oil prices through a hedging program combined with a rock-solid balance sheet. Raging River finished the first quarter with considerable liquidity, having $150 million available to draw down as required from an existing credit facility.

In addition, annualized net debt at the end of the first quarter represented roughly one times its operating cash flow, indicating that not only is Raging River's level of debt manageable, but it is generating sufficient cash flow to meet its debt expense.

So what?

Raging River is an appealing play on higher oil prices. Its high-quality oil assets located in the prolific Viking oil formation, enviable drilling inventory, significant exploration upside, and solid balance sheet leave it well placed to unlock considerable value for investors as the price of crude rises. This makes it highly likely that its stock will appreciate significantly over the course of 2017.

CATEGORY

1. Energy Stocks
2. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/10/01
Date Created
2017/05/18
Author
mattdsmith