Now Is the Time to Acquire Gran Tierra Energy Inc.

Description

Even after OPEC announced that the production cuts would continue for at least nine more months, the price of crude dipped due to fears of growing U.S. production. While this represents mixed news for the energy patch, it shouldn't deter investors from investing in quality energy stocks. One small-cap upstream oil producer that stands out for all the right reasons is **Gran Tierra Energy Inc.** (TSX:GTE)(NYSE:GTE).

Now what?

The Colombian-based energy company completed a transformative acquisition in 2016, making it one of the leading oil producers in the Andean nation. It also made Gran Tierra the leading landholder in the under-explored Putumayo basin and gave it considerable holdings in the prolific Middle Magdalena basin.

The quality of that acreage is evident from Gran Tierra's recent oil discoveries in both of those locations. Along with its long-life oil reserves of 126 million barrels and considerable exploration upside, these discoveries will support ongoing production growth for the foreseeable future.

By the end of 2016, those reserves had grown by a startling 91% compared to a year earlier. They now have a net present value of US$4.47, or almost double Gran Tierra's current share price, highlighting just how attractively priced the company is at this time.

Meanwhile, for the first quarter 2017, production grew by an impressive 17% year over year.

Furthermore, Gran Tierra's netback, a key indicator of the profitability of its operations, grew by a massive 136% compared to the equivalent quarter in 2016. This places its netback among the top quartile of its peers. Such a solid netback in a difficult operating environment which is dominated by weaker crude indicates that Gran Tierra's operations will remain profitable even if crude weakens further.

A key attribute that makes Gran Tierra a compelling means of betting on higher oil prices is its rock-solid balance sheet. As of the end of the first quarter 2017, it had cash of almost US$27 million and long-term debt of US$193 million, or a mere 1.4 times annualized operating cash flow. This indicates that the debt is manageable and Gran Tierra can easily meet the associated expense.

The company is also focused on unlocking further value for investors.

Not only has Gran Tierra implemented an extensive exploration and development program for 2017, which will see it drill up to 23 net wells that will be financed from operating cash flow, but it continues to streamline its operations and assets. It recently announced the sale of its Brazilian assets for US$35 million and is evaluating how to maximize the value of its Peruvian oil acreage.

So what?

The prolonged slump in crude caused by the global supply glut has made energy stocks relatively unappealing for investors, but, over time, oil prices will strengthen, particularly when global economic growth increases. When this occurs, those upstream oil companies with solid balance sheets, growing production, and high-quality assets, such as Gran Tierra, will experience a healthy lift in their stock prices.

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