This Small-Cap Canadian Driller Is 1 of the Best Ways to Play Higher Oil

Description

Crude has rallied sharply in recent months, as declining inventories, fears of supply constraints, and rising demand growth all work to bolster prices. This has been a boon for beaten-down energy stocks and has reinvigorated investor interest in the energy sector. While oil prices have retreated slightly in recent days, there are signs that crude could very well have entered a new bull market and climb higher over the course of 2018. This makes upstream oil producer **Gran Tierra Energy Inc.** (TSX:GTE)(NYSE:GTE) an attractive investment.

Now what?

Because Gran Tierra's operations are focused on the one-time deeply troubled Latin American nation of Colombia, it is often overlooked by investors.

Nevertheless, it has accrued a solid portfolio of oil and gas assets in the Andean nation as well as an enviable history of making accretive acquisitions. Among the largest and most important of these was Gran Tierra's needle-moving US$525 million purchase of Latina Energy Ltd. This was completed in late 2016 and added 53 million barrels of crude to its oil reserves, and it boosted its acreage in the Llanos, Magdalena, and Putumayo basins.

Those deals, along with a highly successful drilling program, have significantly expanded Gran Tierra's oil production, positioning it to take full advantage of higher prices. Third-quarter 2017 production rose by 31% year over year, and oil reserves between the end of 2015 and 2016 expanded by an impressive 105%. This trend will continue into 2018 with Gran Tierra forecasting that production will increases by 20-27% compared to 2017.

When coupled with Gran Tierra's solid operating netback, which is one of the best among its peers because of the driller's focus on controlling costs, Gran Tierra's earnings will grow at a healthy rate.

Unlike many of its North American peers, Gran Tierra can access Brent pricing, which will further boost its earnings because Brent trades at a significant premium to the North American benchmark West Texas Intermediate, or WTI. That premium is currently ~US$5 per barrel and could increase if Middle East tensions disrupt OPEC supplies, and U.S. shale production grows at the rate predicted.

More importantly, the company plans to finance its 2018 capital budget, including exploration and well development from cash flow and existing cash on hand. That budget is predicated on Brent averaging US$57 per barrel over the course of the year, which, with it now at US$69, indicates that Gran Tierra will be able to boost capital spending on all-important exploration and development drilling. This bodes well for further oil discoveries over the course of the year and greater well-recovery rates, which should see a further meaningful increase in reserves as well as production.

A recent development that enhances Gran Tierra's appeal has been the decision to sell its troubled oil assets in Peru**,** which was completed in mid-December 2017.

So what?

Gran Tierra remains one of the most appealing ways to profit from oil's solid recovery, especially when considering it is trading at a 35% discount to the net asset value of its proven and probable oil reserves. This, along with its quality oil assets, ability to expand production, solid balance sheet, and higher oil, all points to it unlocking considerable value for investors.

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