



## 1 Oil Stock Operating Outside Canada That Is Ready to Soar

### Description

Oil's [recent rally](#) has brought the spotlight firmly back on beaten-down oil stocks, notably smaller upstream producers that have failed to keep pace with recent gains in the price of crude. An interesting upstream oil producer that investors should consider as oil prices firm is **Gran Tierra Energy Inc.** ([TSX:GTE](#))(NYSE:GTE). While oil has gained 8% for the year to date, Gran Tierra's stock remains flat, highlighting the opportunity that exists for investors.

### Now what?

Gran Tierra is focused on the Latin American nation of Colombia, where it has amassed interests in 30 blocks across Colombia concentrated on the Putumayo, Llanos, and Magdalena basins. This considerable acreage has been independently assessed to hold oil reserves of 58 million barrels valued at US\$1.9 billion after tax and the application of a 10% discount rate in accordance with industry methodology. That equates to US\$4.79 per share, which is 75% higher than Gran Tierra's current stock price.

This indicates that Gran Tierra is attractively valued, particularly when it is considered that those were calculations were completed using a Brent price of US\$54 per barrel, and the international benchmark oil price is now trading at US\$68 a barrel.

Gran Tierra has a long history of growing its oil reserves and production.

By the end of 2017, oil reserves had expanded by a healthy 12% year over year, while production came to 26,209 barrels daily net after royalties, which was a 17% increase over 2016. For 2018, production is forecast to grow by between 16% and 23% compared to 2017.

Gran Tierra's production should keep growing into 2019, because it has boosted its 2018 capital expenditures for exploration drilling, well development, and maintenance by up to 7.5% compared to 2017.

More importantly, this capital program will be funded from cash flow, and that is certainly achievable considering it is predicated on US\$57 Brent, and the international benchmark price is now at US\$68 a

barrel. This will allow Gran Tierra to keep its pristine balance sheet intact.

The pristine nature of its balance sheet is demonstrated by its considerable available liquidity, including cash of US\$12 million and net debt of a very manageable US\$272 million, which is a mere 1.2 times cash flow. That, along with the driller's hedging strategy, which sees 10,000 barrels daily, or roughly a third of its net after royalties, of 2018 production hedged at an average of US\$54, will protect Gran Tierra from any further downturn's in the price of oil.

In fact, after allowing for sustaining, development, and exploration capital, Gran Tierra is free cash flow positive with Brent at US\$57 per barrel. That cash flow will grow incrementally as Brent rises in value, because of a range of emerging supply constraints, geopolitical risks, and rising demand growth. In an operating environment where oil prices are firming, this will lead to a healthy lift in net income.

Because of its immense acreage in some of Colombia's most productive oil basins, Gran Tierra possesses considerable exploration upside. By the end of 2017, drilling locations among its existing oil reserves had risen to 46, which was 28% higher than 2016. It also has 1,400 drilling opportunities, the majority of which are focused on the Putumayo basin, which is the least exploited of Colombia's major oil basins.

### **So what?**

Gran Tierra is an attractive play on higher oil. Through a combination of acquisitions and organic growth, it has established an enviable portfolio of high-quality oil assets in Colombia. This, along with maintaining a rock-solid balance sheet and growing production coupled with [higher oil](#), will allow it to unlock considerable value for investors. The upside available is underscored by the net asset value of its oil reserves being 75% higher than its stock price, making now the time to buy.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSEMKT:GTE (Gran Tierra Energy Inc.)
2. TSX:GTE (Gran Tierra Energy Inc.)

### **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

### **Category**

1. Energy Stocks
2. Investing

### **Date**

2025/06/30

**Date Created**

2018/03/31

**Author**

mattdsmith

default watermark

default watermark