2 Canadian Oil Stocks Operating in Colombia That Could Easily Double

Description

The sustained rally in crude has caught many analysts by surprise, myself included, with geopolitical tensions being responsible for oil's latest spike.

Nonetheless, many energy stocks, especially those operating in Canada that are producing heavy oil, have failed to keep pace, primarily because of the economics associated with oil sands production. What many energy investors don't realize is that Canadian oil companies have held a pioneering role in developing Colombia's energy patch and are among the leading privately owned producers. The quality of their oil and gas assets coupled with some unique market characteristics means that their time has come because of higher, sustained oil prices.

Let's take a closer look at three upstream Canadian oil and gas producers operating in the Andean nation that are poised to soar.

Now what?

Parex Resources Inc. (TSX:PXT) is a driller focused on one of Colombia's oldest and most prolific oil basins, the Llanos Basin. Parex has gained an impressive 13% for the year to date, roughly keeping pace with oil itself. There is every sign that Parex will rally further.

The driller has amassed oil reserves of 162 million barrels, which are weighted predominantly to light and medium crude. Parex has also been steadily growing production at a healthy clip. For 2017, oil output rose by 20% year over year to 35,541 barrels daily and is expected to grow again by 18% during 2018. That along with it being able to access international Brent pricing, which is trading at a US$5.66 per barrel premium to the North American Benchmark West Texas Intermediate (WTI), is a big plus in an operating environment where oil is rising.

Notably, Parex has a solid debt-free balance sheet with sufficient working capital and cash flow to fund its 2018 capital expenditures, further enhancing its appeal as an investment.

Gran Tierra Energy Inc. (TSX:GTE)(NYSE:GTE) has, through a series of acquisitions, amassed a sizable landholding in Colombia's southern Putumayo Basin. Because of the surge in oil, its stock has gained 14% since the start of 2018, and there is every sign it has further to go.

Like Parex, Gran Tierra can access Brent pricing, giving it a financial advantage over upstream oil companies operating in Canada, which can only access lower WTI pricing.

Gran Tierra is also growing oil reserves and production at a solid clip. By the end of 2017, its reserves had grown by 18% compared to a year earlier to 137 million barrels, which have been determined to have a net asset value (NAV) of just over $7 per share, or 75% higher than its price at the time of writing. As oil rises, Gran Tierra's NAV will expand because the valuation was conducted using an average Brent price of US$66.50, which is almost US$10 lower than the current market price.

Meanwhile, 2017 production grew by 20% year over year to 31,426 barrels daily and is expected to expand by up to another 23% during 2018. This indicates the tremendous upside on offer from a driller which has a solid balance sheet with a moderate amount of debt and considerable capital, including US$12 million in cash on hand.

So what?

Both upstream oil producers are attractively valued and offer a solid opportunity to cash in on higher oil. Their solid balance sheets, quality light and medium oil assets, as well as the ability to access international Brent pricing give them an edge over many of their peers operating in Canada. It would not be unreasonable to expect solid gains from Parex's and Gran Tierra's shares should oil enjoy another sustained rally.

CATEGORY

1. Energy Stocks
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3. TSX:PXT (PAREX RESOURCES INC)

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