Is This Driller Canada's Top Upstream Oil Stock?

Description

Oil has rallied solidly in recent weeks because of rising geopolitical tensions and stronger global economic growth, which have triggered greater demand for energy. This has made Canada's beaten-down energy patch an attractive option for investors betting on higher oil.

A Canadian upstream oil company that appears increasingly attractive in the current operating environment is **White Cap Resources Inc.** (TSX:WCP). While the North American benchmark West Texas Intermediate (WTI) has gained 13% since the start of the year, Whitecap's shares have appreciated by a mere 2%, creating an opportunity for investors.

Now what?

Whitecap is a light and medium oil producer focused on the Cardium, Deep Basin, and Viking light oil plays in central Alberta and southwest Saskatchewan. The driller has a solid history of growing its oil reserves and production, ending 2017 with 483 million barrels of oil reserves and a 21% compound annual growth rate since 2009. It has been calculated that these reserves have an after-tax net asset value of $5.4 billion, or $12.92 per share. This is 38% higher than Whitecap's market price, highlighting the considerable upside available to investors.

More importantly, that valuation was conducted using an assumed price for WTI of US$58.50 per barrel for 2018 and 2019, which is 16% lower than the spot price. This indicates that the net asset value of Whitecap's reserves will expand if higher oil remains in play for a sustained period.

Whitecap ended 2017 with average daily production of 57,450 barrels daily, which is an impressive 25% increase compared to a year earlier. According to the company's 2018 guidance, its oil output for 2018 will average between 73,600 and 74,800 barrels daily, which, at its upper end, represents an impressive 29% increase over 2017. This is an important point to note, because in an operating environment where higher oil has become the norm, it will give Whitecap's 2018 earnings a healthy lift.

There is every indication that Whitecap's oil reserves and production will continue to grow. The driller has boosted 2018 spending on well development by 30% and expects to drill 243 wells over the course of the year. This coupled with Whitecap's remarkable drilling success rate points to additional reserves growth.

The company also possesses a solid balance sheet, finishing 2017 with $161 million in current assets and long-term debt of $1.3 billion, giving Whitecap net debt that is a very manageable 1.6 times cash flow. That bodes well for the driller to maintain its operational tempo should oil weaken once again.

So what?

Despite the prolonged slump in crude, Whitecap is one of the few oil stocks in Canada's energy patch that has continued to pay a dividend to investors. This can be attributed to the strength of its balance sheet and considerable cash flow generated by its high-quality oil assets. Whitecap rewards loyal investors with a monthly dividend payment, which currently yields just over 3%, and there is every sign that should WTI prices remain firm, the company will hike that dividend as its cash flow grows.

Whitecap remains one of the best plays in Canada's energy patch for investors seeking exposure to crude, and because of its failure to keep pace with oil's latest rally, it is attractively valued.

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1. TSX:WCP (Whitecap Resources Inc.)

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Date
2025/07/26
Date Created
2018/04/23
Author
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