



2 Attractively Valued Energy Stocks That Are Ready to Soar

Description

The recent [surge in oil](#) has brought attention firmly back on Canada's beaten-down energy patch. The North American benchmark price West Texas Intermediate (WTI) has soared by 13% since the start of 2018 to be trading at over US\$67 a barrel. This is a boon for upstream energy stocks, such as **Raging River Exploration Inc.** (TSX:RRX) and **Surge Energy Inc.** ([TSX:SGY](#)), which have failed to keep pace with the latest rally. In fact, Raging River has fallen by 12% since the start of the year, while Surge Energy has only gained 7%.

Now what?

The sharp decline in Raging River's share price does not fully reflect the underlying value of the company or its oil assets. Its developed oil-producing acreage is focused on light oil production in the Dodsland Viking play, and it has also amassed exploration properties in the Halkirk Viking play. At the end of 2017, Raging River reported oil reserves of 107 million barrels, which was 14% higher than a year earlier. Those reserves were independently valued before tax to have a fully diluted value of \$9.16 per share, which is 29% greater than the company's market price.

The value of Raging River's reserves will rise in an operating environment where WTI has firmed to above US\$67 per barrel, because the assumed prices used to calculate their value at the end of 2017 were lower than the current price. That along with the considerable exploration upside held by its acreage indicates there is significant value waiting to be unlocked for investors.

Because of the quality of Raging River's assets, it has been able to steadily grow production. For 2017 oil output expanded by 27% year over year, and in 2018 it is forecast to grow by 23% to 24,000 barrels daily. That is a definite advantage in an operating environment where oil is rising, because it will give the company's earnings a solid boost.

Surge Energy is another Canadian upstream oil producer focused on light oil. It owns assets in Alberta and southwestern Saskatchewan that have oil reserves of 95 million barrels, 92% of which is weighted to oil and natural gas liquids. These reserves have been determined to have a net present value (NPV) of \$1.6 billion, which comes to \$6.06 per share, or more than double Surge Energy's market price. That

underscores just how attractively valued the company is at this time.

An extremely appealing attribute is Surge Energy's ability to steadily expand its oil production. For 2017 oil output shot up by 16% year over year, and for 2018 it is forecast to grow by 8% to 16,150 barrels daily. That is a particularly important characteristic to possess in an operating environment where oil is rising in value.

Surge Energy has been able to generate solid operating netbacks per barrel produced because of its high-quality assets. The company reported a 2017 operating netback of \$22.93 per barrel with WTI averaging US\$50.95 per barrel over the course of the year. That can only increase during 2018, because WTI has averaged roughly US\$63 a barrel for the first four months of the year.

As a result, not only will Surge Energy's profitability grow in the current operating environment, but its earnings should receive a solid bump.

So what?

Both drillers appear attractively priced, and the market has failed to recognize the full value of their assets, including their existing oil reserves, highlighting the considerable potential upside they offer investors. Because Raging River and Surge Energy are growing their oil reserves and production in an operating environment where [WTI has rallied](#), their 2018 earnings will grow at a healthy clip, which should further boost their share prices.

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Date

2025/09/30

Date Created

2018/05/02

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