



This Canadian Driller Is an Attractive Play on Higher Oil

Description

The sudden surge in oil, which saw the North American benchmark West Texas Intermediate (WTI) [trade above](#) US\$70 per barrel for the first time since 2014, has caught many investors off-guard. It has, however, been a boon for beaten down energy stocks, with many rising sharply in recent weeks. One intermediate oil producer that's gained an impressive 34% over the last three-months but still appears attractively valued is **Gran Tierra Energy Inc.** ([TSX:GTE](#))(NYSE:GTE).

Now what?

Gran Tierra is currently focused on Colombia, where it owns considerable acreage across the Llanos, Magdalena, and Putumayo basins. The company has reserves totalling 137 million barrels of oil weighted to crude and other petroleum liquids. Those reserves have been independently assessed at a value of US\$2.5 billion. That amounts to \$8.30 per share, or double Gran Tierra's market price, thereby highlighting the considerable upside available to investors. Notably, the value of those reserves will expand, as it was completed using assumed prices for Brent that were lower than the spot price.

Gran Tierra recently reported some solid results, thereby underscoring the appeal for investors seeking to boost their exposure to oil. First quarter 2018 production was a record 35,075 barrels daily, which was 23% higher than the equivalent period in 2017. That can be attributed to growing operational improvements and Gran Tierra bringing five wells to production during the quarter.

Operating costs also fell, dropping by 6% year over year. Gran Tierra's netback grew by a healthy 45% compared to the first quarter 2017 to US\$34.37 per barrel, thus highlighting the growing profitability of its operations. The considerable leap in profitability was responsible for causing first quarter net income to grow by an impressive 40% year over year to US\$17.9 million, which was also a marked improvement over the fourth quarter 2017 loss of US\$41 million.

Like other upstream oil companies operating in Colombia, Gran Tierra is able to access international Brent pricing, meaning that it benefits from Brent's higher prices compared to WTI.

Gran Tierra's oil reserves and production will continue to grow because of its ongoing investment in

exploration in addition to well development. During the first quarter, management increased Gran Tierra's 2018 capital program budget by US\$25 million, which sees it planning to drill 21 development and 11 exploration wells.

The driller is also investing in a series of power projects to further support its operations. On completion, it is expected to boost the stability of the power supply to Gran Tierra's operations, thereby ensuring more consistent production as well as reducing lifting costs and outages. This will further enhance Gran Tierra's oil output, netback, and ultimately profitability, giving its bottom line a healthy bump.

For 2018, the company has forecast a 16% to 23% increase in oil production, which in the current operating environment of rising crude oil will give its bottom line a solid bump.

During the first quarter, Gran Tierra successfully completed a US\$300 million debt raising through the offer of senior unsecured notes. This has enhanced its financial flexibility, giving the company the necessary funds to accelerate investment in projects under development, expand its exploration program, or engage in opportunistic acquisitions.

So what?

Gran Tierra is an appealing investment for investors seeking exposure to higher oil. With the growing likelihood of [oil firming](#) further, Gran Tierra should continue to rally over coming months, especially as it unlocks additional value for investors.

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