3 Top Canadian Drillers to Play Higher Oil

Description

Oil has whipsawed wildly over the last month; a mix of good as well as bad news has affected its price, triggering bouts of optimism and pessimism over the outlook for oil among global energy markets. While West Texas Intermediate (WTI) and Brent have pulled back from their multi-year highs in recent weeks because of fears that OPEC will boost production, the long-term outlook for crude remains positive. Even one-time eternally bearish investment bank **Goldman Sachs** remains bullish on oil, even if an additional one million barrels of crude are added to global supplies.

The latest market ructions have caused many Canadian oil stocks to fall in value, creating an opportunity for investors seeking exposure to oil and to cash in on firmer long-term prices. While Canada's oil sands garner the majority of attention from investors, it is light and medium upstream oil producers that offer the most potential upside. Here are three top Canadian light oil producers for investors to consider.

Now what?

Raging River Exploration Inc. (TSX:RRX) has seen its value fall by 15% since the start of the year, despite reporting some strong first-quarter 2018 results. For the first quarter, the driller reported record average quarterly production of 24,118 barrels daily, which was 88% weighted to light oil and represented a 6% increase over the same period in 2017.

Significantly, on an unhedged basis, Raging River reported an impressive netback of $44.78 per barrel of crude produced, highlighting the profitability of its operations.

The advantage of producing light crude over heavy crude can be seen by Raging River's realized average price for light crude during the quarter, which was $67.68 per barrel, or $23.93 per barrel higher than the driller's average realized price for the heavy crude it produced. In response to its languishing share price, Raging River instituted a strategic review process in March in an effort to have the market recognize the value of its oil assets and enhance shareholder value.

Surge Energy Inc. (TSX:SGY) is a conventional light oil producer with a million barrels of reserves which have a net asset value (NAV) of $6.06 per share, or three times its current market price. The driller has consistently increased production, expanding it by 32% since the end of the first quarter 2016.

For 2018, average daily production is forecast to grow by 29% year over year to 16,585 barrels, which is a crucial attribute in an operating environment where crude has firmed significantly, because it will give Surge's earnings a healthy bump — even more so when it is considered that the company reported an operating netback of $24.18 per barrel of oil produced. That should give its stock a solid boost.

Obsidian Energy Ltd. (TSX:OBE)(NYSE:OBE), once known as the deeply distressed upstream oil producer Penn West Petroleum Ltd., is another light oil producer that struggled to survive the prolonged slump in crude.

Nonetheless, through many assets sales, management was able to right the ship and turn the company around, having reduced its net debt to a manageable $407 million.

Obsidian is focused on its Cardium light oil acreage, which has oil reserves of 101 million barrels and produced on average 19,081 barrels daily during the first quarter 2018. The quality of the driller's oil assets is underscored by their low decline rate, which give it a corporate base decline rate of a mere 16%, well below that of comparable upstream oil producers. For 2018, production is expected to grow by 5% compared to 2017, which — along with firmer prices and reduced operating costs — will give earnings a healthy lift, which should boost its share price.

So what?

All three companies offer the opportunity to gain exposure to crude without the drawback of the steep discount applied to Canadian heavy crude impacting their earnings. Each driller is focused on expanding production, making their operations more efficient, and boosting oil reserves, which will see them unlock value, causing their stocks to appreciate.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:SGY (Surge Energy Inc.)

PARTNER-FEEDS

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

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/07/03
Date Created
2018/06/07
Author
mattdsmith