3 Top Energy Stocks to Play Higher Oil

Description

For some time, pundits have been claiming that oil will rebound, and that it is time to invest in energy stocks. Despite these claims, West Texas Intermediate (WTI) remained caught in a prolonged slump which saw it slide under US$30 a barrel in early 2016. Since then, it has bounced back to be trading at over US$65 a barrel, which is higher than many analysts' predictions, and in spite of whipsawing wildly in recent weeks, there are signs that higher crude is here to stay.

Now is the time for investors to bolster their exposure to crude. Among the best means of doing so is by investing in upstream oil producers with high-quality, long-life assets whose production is weighted to crude and other petroleum liquids. Here are three upstream oil producers that are poised to soar as oil moves higher.

Now what?

First up is internationally diversified oil producer **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET). It is one of the few drillers that didn't cut or eliminate its dividend when oil began its precipitous decline in late 2014.

Surprisingly, Vermilion not only maintained its monthly dividend but hiked it by 7% at the end of the first quarter 2018, so it now yields a tasty 6%. Not only will higher oil prices ensure the sustainability of that juicy dividend, but rising production and greater profitability will ensure that it can be sustained.

Vermilion has been steadily growing its oil output, which means its planned 2018 production should exceed 2017 by up to 14% from existing operations and before its latest acquisition is factored in. During the first quarter, Vermilion announced the $1.4 billion acquisition of Spartan Energy Corp., which just closed, adding another 12,500 barrels of daily production.

That — along with higher oil — will give Vermilion's earnings a solid lift, especially when it is considered that, despite lower prices, it has been able to consistently deliver a solid netback, which, for the first quarter, was $31.05 per barrel.

Next up is one upstream oil producer that has been deeply disliked by the market since oil prices collapsed: **Pengrowth Energy Corp.** (TSX:PGF)(NYSE:PGH). WTI's sustained rally, which sees it trading at over US$66 per barrel, along with signs that firmer prices are here to stay, means that now is the time for Pengrowth to shine.

The company owns and operates the Lindbergh thermal oil project — a long-life, low-cost oil sands asset currently producing 12,500 barrels daily, which is forecast to grow to 18,000 barrels by the end of 2018. A key advantage associated with this asset is its low decline rates, which means it requires significantly less sustaining capital than conventional oil or shale oil assets.

Meanwhile, demand for heavy oil from U.S. refineries is rising because of Venezuela's deteriorating production.

For 2018, Pengrowth has allocated almost $46 million to develop Lindbergh, which has reserves of 317 million barrels and regulatory approval for average daily production of 40,000 barrels.

When these attributes are considered in conjunction with Pengrowth's significantly stronger balance sheet (in 2017 it shaved an impressive $1.1 billion off its tremendous pile of debt), it is positioned to unlock considerable value for investors.

Finally, there is **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), which has soared by 38% since the start of 2018 and offers even more upside ahead. Baytex's key focus and the most appealing aspect of its operations is its Eagle Ford light oil acreage.

This is responsible for just over half of Baytex's production and generates an impressive netback of $32.48 per barrel — almost triple the netback earned by its Canadian heavy oil operations, underscoring its profitability.

Baytex's efforts aimed at reducing debt to a manageable level coupled with a well-laddered debt profile have boosted its financial flexibility. Because the market price for WTI is significantly higher than the US$55 per barrel required for Baytex to be free cash flow positive, the driller will generate considerable additional free cash flow in the current operating environment. That will allow it to further reduce debt and fund greater investment in expanding its Eagle Ford production.

So what?

All three drillers are well positioned to unlock considerable value, particularly in an environment where firmer WTI appears likely to remain in play for a sustained period. That means these companies will soar in coming months, especially when greater demand growth and emerging supply constraints trigger the next leg-up for crude.

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2. TSX:BTE (Baytex Energy Corp.)
3. TSX:VET (Vermilion Energy Inc.)

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