Now Is the Time to Buy Gran Tierra Energy Inc. (TSX:GTE)

Description

There are fears that Trump will trigger a trade war, which — along with higher oil prices — could disrupt global economic growth. This is keeping a lid on oil prices and has caused West Texas Intermediate (WTI) to fall sharply in recent weeks to be trading at under US$66 a barrel. Record U.S. oil production and worries that OPEC — along with Russia — is considering opening the spigots and boosting oil output by up to one million barrels daily is also weighing on the outlook for crude.

Nonetheless, the uncertainty sparked by these circumstances shouldn't deter investors from bolstering their exposure to oil. Among the best means of doing so is by investing in **Gran Tierra Energy Inc.** (TSX:GTE)(NYSE:GTE).

Now what?

Gran Tierra is focused on the Latin American nation of Colombia, where it has become the dominant landholder in the southern Putumayo Basin and is focused on becoming the nation's preeminent independent oil producer. It completed the US$525 million acquisition of PetroLatina Energy Ltd. in 2016, which significantly bolstered its presence in the Andean nation as well as its exploration acreage, oil reserves, and production.

Since then, Gran Tierra's operations have grown at a solid clip. By the end of 2017, it had oil reserves of 137 million barrels, which is 18% greater than a year earlier and 142% greater than 2015. Those reserves are 99% weighted to oil and petroleum liquids, thereby significantly minimizing the impact of the slump in natural gas on its earnings.

Impressively, Gran Tierra reported a stunning reserves-replacement ratio of 283% for the year, highlighting the quality of its oil acreage. Its end-of-year reserves were determined to have a net asset value (NAV) of US$5.69 per share, which is almost double Gran Tierra's market price.

The value of those reserves will expand significantly in the current operating environment. Not only will further drilling and oil discoveries increase the volume of Gran Tierra's reserves, thereby boosting their value, but higher oil prices will cause their NAV to expand. This is because that NAV was calculated at the end of 2017 using an assumed average Brent price of US$54.19 a barrel, which is almost US$10 less than the current market price of US$73 per barrel.

Gran Tierra's ability to significantly grow oil production will also give earnings and ultimately market value a healthy boost. For the first quarter 2018, the company reported net oil production of 28,189 barrels daily, which was an impressive 14% greater than a year earlier. Full-year 2018 production is expected to expand by up to 23% year over year.

The ability to access international Brent pricing gives Gran Tierra a distinct financial advantage over its North American peers. This is because Brent is trading at a considerable premium of almost US$8 per barrel to the North American benchmark West Texas Intermediate. There is every sign that this premium will grow in coming months because of swelling U.S. oil production and emerging supply constraints disrupting international oil output.

I expect Gran Tierra's oil reserves and production to keep expanding. This is because the company has an enviable drilling success rate coupled with a large inventory of prospective oil resources estimated at 1.5 billion barrels as well as 30-35 planned exploration wells to be completed over the next three years.

So what?

Gran Tierra remains one of the best and most attractively valued plays on higher oil, especially now that much of the political risk in Colombia has been eliminated because of Conservative, business-friendly candidate Ivan Duque winning the presidential election. That combined with Gran Tierra's solid balance sheet and considerable oil reserves makes now the time for investors to add the stock to their portfolios.

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