



## Investors: Get Ready for Pengrowth Energy Corp. (TSX:PGF) to Shine

### Description

The latest surge in oil, which sees West Texas Intermediate (WTI) trading at almost US\$75 a barrel, will be a boon for Canadian heavy oil producers. Not only did the latest rally defy OPEC and Russia's decision to add up to one million barrels of crude to global supplies, but there is every indication that higher crude is here to stay. This will be a boon for **Pengrowth Energy Corp.** (TSX:PGF)(NYSE:PGH), even if Canadian heavy oil Western Canadian Select (WCS) continues to trade at a steep discount to WTI.

### Now what?

The latest announcement from Pengrowth, which provides an update worthy of noting and a road map as to the company's immediate future, provides further evidence of just how attractive it is becoming as an investment. Key among the progress made by Pengrowth has been its ability to considerably expand production at its flagship, long-life Lindbergh SAGD asset.

In the latest news release, the company announced that Lindbergh's production had exceeded 17,500 barrels daily, placing it on track to reach planned 2018 exit production of 18,000 barrels daily. That initial number is an impressive 3,500 barrels daily, or 21% greater than 2017 average daily production of 14,000 barrels. It also exceeds Lindbergh's nameplate capacity by 5,000 barrels daily.

Pengrowth is targeting 40% production growth at Lindbergh by 2020, which certainly appears achievable if firmer oil remains in play for a sustained period. This is because WTI is trading at well above the forecast US\$55 per barrel used in Pengrowth initial 2018 guidance.

In fact, WTI is trading at around US\$74 per barrel and has averaged US\$65 per barrel since the start of 2018 to date, which means the driller's cash flow will surge.

As a result, Pengrowth has announced that with WTI at US\$65 a barrel, it can boost 2019 capital spending to \$120-125 million, which is almost double the \$65 million budgeted for 2018. That certainly puts Pengrowth on a firm footing to achieve its 2020 production target.

The substantial increase in free cash flow that higher crude will generate leaves Pengrowth well

positioned to meet its looming 2019 \$58 million long-term debt maturity as well as to bolster its balance sheet by allocating any excess funds to further reducing debt.

Higher oil for a sustained period appears highly likely because of emerging supply constraints being far more severe than initially anticipated, along with stronger than expected demand growth.

By virtue of its hedging program, if WTI dips to US\$55 a barrel, Pengrowth is capable of maintaining production at current levels during 2019 while being free cash flow positive.

Nonetheless, even if WTI doesn't rally much further, [higher crude](#) appears here to stay, meaning that Pengrowth will give capital spending a solid nudge for 2019. While I am not optimistic about the outlook for WCS or that its deep discount to WTI will ease any time soon, this should have little impact on Pengrowth in an operating environment where WTI is trading at over US\$70 a barrel.

### **So what?**

Pengrowth, over the last month, has failed to keep pace with crude, falling by 2% compared to WTI's 11% gain. This has created an opportunity for investors seeking a highly levered play on crude, which possesses a quality low-cost, long-life asset and is poised to soar.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **PARTNER-FEEDS**

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

### **Category**

1. Energy Stocks
2. Investing

### **Date**

2025/07/06

### **Date Created**

2018/07/02

### **Author**

mattsmith

default watermark