



1 Must-Own Energy Stock Yielding 3% to Cash in on Higher Oil

Description

Oil — notably North American benchmark West Texas Intermediate (WTI) — has [rallied sharply](#) in recent weeks to be up by around 12% over the last month, whereas Brent has only gained roughly 2%. This has caused the price differential with the international benchmark Brent Crude to [converge significantly](#) to arrive at its lowest point since March 2018.

That is good news for Canada's beaten down energy patch and light oil producers, making now the time for investors to bulk up their exposure to crude. Among the best ways to play higher oil and its increasingly optimistic outlook in the Canadian energy patch is by investing in **Whitecap Resources Inc.** ([TSX:WCP](#)).

Now what?

The driller has a diversified portfolio of oil assets, including acreage in the Viking, Deep Basin, Cardium and Boundary lake oil plays. This gives it reserves of 483 million barrels of oil, of which 80% are weighted to light and medium crude. Whitecap has been able to grow its oil reserves at a decent clip with a compound annual growth rate (CAGR) of 21% over the last nine years.

The driller is also steadily growing its production, reporting record production for the first quarter 2018 of 73,120 barrels daily, which was 31% greater than the same period a year earlier. Like Whitecap's reserves that production was 85% weighted to light and medium crude. This is important to note in the current operating environment because it gives it a definite advantage over heavy oil producers such as **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)), which is being [sharply impacted](#) by the deep-discount applied to Western Canadian Select (WCS).

Canadian light crude trades at a discount of almost US\$6 per barrel to WTI compared to the US\$20.50 a barrel applied to heavy oil. That gives Canadian light oil producers a significant financial advantage over their heavy oil-producing peers.

For these reasons, Whitecap reported some solid results for the first quarter, including an operating netback of \$28.60 per barrel sold, a 2% increase over the same quarter during 2017. The operating netback of an upstream oil producer is an important indicator of operational profitability. In the case of

Whitecap, its netback should improve over the course of 2018 as it focuses on reducing costs and boosting efficiencies at its operations.

As a result of firmer oil and growing profitability, Whitecap reported a remarkable 34% year over year increase in funds flow from operations, but a disappointing net loss of \$7.8 million compared to a \$60 million profit a year earlier.

Nonetheless, that loss is not as bad as it first appears.

The loss can be attributed to Whitecap realizing a \$63 million loss, compared to a \$51 million gain for the first quarter 2017, on its risk management contracts. These are composed of a portfolio of derivative instruments designed to minimise the impact of adverse movements in the U.S. dollar, the spot price for oil and interest rates. Given that the sustained rally experienced by crude since the start of 2018 was largely unanticipated, Whitecap had a comprehensive hedging strategy aimed at mitigating the risk of sharply weaker oil.

That did not eventuate, however, triggering Whitecap's large loss on its commodity and foreign exchange hedges.

Because of its strong first quarter operational performance coupled with firmer oil, Whitecap's management elected to hike the monthly dividend by 5%, giving the driller a yield in excess of 3%.

So what?

Whitecap is one of the most attractive plays on higher oil. Its quality assets, high operational profitability and lack of exposure to heavy oil means that it will benefit substantially from WTI's next rally. While investors wait for its stock to soar. they will be rewarded by a sustainable dividend with a juicy yield.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)
3. TSX:WCP (Whitecap Resources Inc.)

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Author

mattdsmith

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