1 High-Quality Canadian Oil Producer That Is Poised to Soar

Description

Oil continues its relentless march upward, despite fears that growing supply, notably from OPEC and Russia, could cause prices to tumble once again. Since the start of 2018, West Texas Intermediate has gained around 25%, while Brent is up by 22%, defying all expectations that oil would remain in a slump through most of 2018.

This has been a boon for energy stocks and created an opportunity for investors, with many Canadian drillers failing to keep pace with this rally. One upstream oil producer that stands out is **Surge Energy Inc.** (TSX:SGY), which has lagged behind oil, only gaining 17% for the year to date.

Now what?

Surge is focused on exploring for and producing oil in western and eastern Alberta and the Shaunavon formation in southwestern Saskatchewan. It is focused on developing oil reservoirs at the conventional end of the permeability spectrum, meaning that its wells typically have lower decline rates than unconventional wells.

That reduces Surge's financial burden by reducing the amount of capital it has to invest to sustain production and develop new wells.

Surge's oil reserves at the end of 2017 came to 95 million barrels. They are predominantly weighted to light and medium oil and were determined to have a net asset value (NAV) of $6.06 per share, which is more than two times greater Surge's market price. The value of those reserves will expand because of higher oil.

You see, that NAV was calculated at the end of 2017 using a forecast 2018 average price for WTI of around $55 per barrel, which is well below the current market price. This indicates the considerable upside on offer for investors in an operating environment where oil is moving higher.

Surge has also been steadily growing production, which, for the first quarter 2018, came to 16,027 barrels daily, which was a 16% year-over-year increase.

Importantly, the majority of that production, like Surge's oil reserves, was weighted to light and medium oil as well as natural gas liquids. This means that Surge is not as severely impacted by the deep discount applied to Canadian heavy crude, which has been affecting the financial performance of heavy oil producers.

Surge's production will continue to grow. Not only has the driller boosted its 2018 capital spending by over 20% compared to 2017, allowing it to increase drilling and well development activity, but Surge recently completed the purchase of oil-producing assets in its core Sparky area for $28 million. The quality of that oil acreage becomes clear when considering that it has an operating netback in excess of $30 for every barrel produced and a decline rate of less than 27%.

As a result of that deal, Surge revised its 2018 guidance upward, forecasting that 2018 exit production would reach 17,175 barrels daily, or 3% greater than originally forecast.

So what?

Surge offers investors the opportunity to gain exposure to higher oil through its portfolio of quality conventional oil assets. It appears extremely attractively valued because the NAV of its oil reserves is far greater than its current share price.

Surge was also one of the very few intermediate upstream oil producers to retain its dividend after the price of crude collapsed. Surge recently hiked its monthly dividend by 5% to $0.008333 per share, meaning that patient investors will be rewarded by its 4% yield as they wait for it to unlock further value.

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