This Light-Oil Company Has 27% Upside!

Description

It's a rare occasion when there is unanimous consensus among analysts. Riding the wave of the energy rebound, analysts agree that **Torc Oil & Gas Ltd.** (TSX:TOG) is a screaming buy! Of the 17 analysts that follow the company, all have it pegged for significant upside.

Although investors must proceed with caution, to see such conviction among analysts is encouraging. Are they right? Let's take a look.

High volatility, high risk

TORC has a 36-month beta of 3.27, which means that the company is highly volatile as compared to the market. A beta of one signifies that the company's volatility matches that of the market. A beta above one means greater volatility, and every 0.01 point above one corresponds with a 1% increase in volatility. Theoretically, TORC is 327% more volatile than the market!

Beta is also associated with a company's risk profile. The higher the number, the riskier your investment.

A quick look at the company's year-to-date (YTD) chart confirms the implied volatility. The company has returned 4.83% YTD and is now trading near 52-week highs. However, at the end of March, TORC investors were down 14%! Since hitting a low in early March, the company has rebounded to post a 32% gain.

Investors need strong willpower to hold TORC. That begin said, greater risk can also lead to greater returns.

Valuation

Don’t be turned off by negative earnings. TORC is an early stage producer and has only drilled a fraction of available locations. Instead, it’s best to look at operational efficiency and futureexpectations. The company is positioned to be highly profitable. At $30 per barrel, it has one of thehighest operating netbacks in the industry.

The company is currently trading at a very respectable price-to-book ratio of 1.1 and a cheap enterprise value to earnings before interest, taxes, depreciation, and amortization (EV/EBITDA) of 8.04. Both are below industry averages.

Looking forward, the company’s price-to-earnings to growth (PEG) is 0.89. A PEG under one means that the company’s share price is not keeping up with its expected earnings growth and is considered undervalued.

Despite trading near 52-week highs, it appears to be a good entry point for investors.

Growth

This focused light oil asset company is well positioned for future growth. On the back of greater production and higher oil prices, it is on pace to post record revenues in 2018. In late June, the company closed on a complementary acquisition of an independent Canadian oil and gas company.

The deal is accretive to TORC’s operating netback and light oil drilling inventory. Further to the closing, the company increased guidance with 2018 exit production of 27,000 barrels of oil equivalent per day. This is up 13.5% from previous expectations.

The company also pays a reasonable dividend which yields 3.40%. In May, the company raised its monthly dividends by 10% thanks to strong cash flows. In the first quarter, cash flows increased 18% year over year and are expected to rise throughout the year. The dividend is well covered, as it accounted for only 18% of cash flows in the quarter.

On the mark

In this case, analysts appear to be on the mark. The company provides good value and has been performing quite well over the past number of years. Analysts have a one-year price target of $10.19, which implies 27% upside!

Pay close attention to the company’s chart. The stock’s next technical resistance is around $8.22 per share. However, the next ceiling of resistance is not until approximately $9.13, which means the company could see some big moves in the near future.

TORC is not for the weak-handed and has a greater risk profile than some of the oil majors. Thus, is it especially important that you do your own due diligence.

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