Should You Buy MEG Energy Corp. (TSX:MEG) Stock?

Description

A recovery in the energy sector is creating renewed interest in Canadian oil producers, with some now trading at multi-year highs.

Let's take a look at **MEG Energy Corp.** (TSX:MEG) to see if it deserves to be on your buy list.

Big gains

MEG is the top-performing stock on the TSX Index in 2018, supported by a strong recovery in oil prices. The recent tightening of the Western Canadian Select (WCS) discount helped fuel the stock's 100% rise during the second quarter of this year.

Production growth

First-quarter production hit a record 93,200 barrels per day (bbls/d), as the company continues to ramp up production at its Christina Lake Phase 2B expansion.

MEG is targeting average 2018 production of 85,000-88,000 bbls/d and expects to see output hit 100,000 bbls/d in early 2019. The gains should continue through next year, with production reaching 113,000 bpd in 2020.

The Christina Lake project is located in the southern Athabasca oil sands region and is comprised of roughly 200 square kilometres of leased oil sands land. The project has regulatory approval to reach total production of 210,000 bbls/d.

MEG has a total of 2,000 square kilometres of growth properties in the region.

The company has applied for regulatory approval to produce 120,000 bbls/d at its Surmount project and for approval of a May River Regional Project that could see production as high as 164,000 bbls/d.

Financials

The company reported a Q1 operating loss of $18 million compared to an operating loss of $79 million in Q1 2017.

MEG sold its 50% interest in Access Pipeline and Stonefall Terminal in late March and used the $1.5 billion in net proceeds to pay off $1.225 billion in loans. The remaining $275 million is being used to fund the ongoing expansion at Christina Lake Phase 2B.

The company has a US$1.4 billion credit facility that is undrawn and finished Q1 with cash and cash equivalents of $675 million.

Pipeline issues

Pipeline bottlenecks have been an issue for MEG and other oil sands producers. However, the company is expanding its shipments on the Flanagan South and Seaway pipeline systems to 100,000 bbls/d beginning in 2020. This will enable MEG to move about two-thirds of its volume to the Gulf Coast and realize world prices.

In addition, crude-by-rail capacity is expected to increase, which should reduce the exposure to volatile WCS prices.

Risk

The sale of the stake in the Access Pipeline and Stonefall Terminal helped reduce debt risks, but MEG still carries $3.5 billion in total debt, which is a lot for a company with a market capitalization of $3.2 billion.

The situation is much better than a year ago, and ongoing production increases combined with higher prices should make investors more comfortable owning the stock.

Should you buy?

The rally in the stock price from below $4 a year ago to the current price near $11 is certainly impressive, and more gains could be on the way. MEG traded for more than $50 per share in 2014.

If you are an oil bull and are prepared to ride out some volatility, it might be worthwhile to take a small position in the stock today.

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