



## Is This the Top Oil Stock to Play Higher Oil?

### Description

The outlook for crude remains positive, and recent events have given oil a solid boost; the international benchmark Brent rallied sharply to trade at over US\$73 per barrel. While considerable uncertainty is causing oil to whipsaw wildly, as energy markets overreact to every piece of positive or negative news, the overall view is that crude will [remain firm](#) for the remainder of 2018.

That is good news for beaten-down energy stocks and has created an opportunity for investors because many energy stocks have yet to reflect the full value created by higher oil. One intermediate upstream oil producer that offers considerable potential is **Gran Tierra Energy** ([TSX:GTE](#))(NYSE:GTE).

### Now what?

After a disastrous foray into Peru earlier this decade, Gran Tierra elected to turn around its operations and focus [exclusively on Colombia](#), Latin America's fourth-largest economy and oil producer. After the 2016 US\$525 million acquisition of PetroLatina Energy Ltd., it became the leading landholder in Colombia's southern Putumayo Basin and one of the Andean nation's leading independent oil and gas producers.

The driller has gone from strength to strength, despite the prolonged slump in crude. Gran Tierra recently released some impressive second-quarter 2018 results. This includes reporting record quarterly production of 35,400 barrels daily net before royalties, which was 13% greater than a year earlier.

Remarkably, production continued to rise over the quarter to see average June 2018 monthly production of 36,426 barrels daily, which was an impressive 3% greater than the record quarterly average. This — along with a range of other emerging catalysts — indicates that production will grow further over the remainder of 2018. That strong production growth can be attributed to the Acordionero field in the Middle Magdalena Valley, where four wells came online during the second quarter.

Notably, since acquiring that oil field in August 2016, Gran Tierra has been able to expand its production almost threefold, and there are signs that this extraordinary rate of growth will continue.

This is because during the second half of 2018, Gran Tierra plans to enlarge the field's production facilities, including enhancing secondary recovery techniques by expanding waterflood and drilling six development wells.

Gran Tierra is also engaged in appraisal and exploration drilling at the Midas and la Paloma blocks in the Middle Magdalena basin, respectively. At those locations, the driller is targeting the La Luna formation and its conventional oil reservoirs.

Interestingly, that same play is now being targeted by other drillers that are seeking to unlock its unconventional shale oil potential with some analysts having compared La Luna to the prolific Eagle Ford shale play. This illustrates the considerable exploration upside held by Gran Tierra's acreage in the Middle Magdalena. The company is also drilling exploration and appraisal wells on its blocks in the Putumayo basin, where it has experienced considerable drilling success in the past.

These factors mean that Gran Tierra's oil production and reserves can only continue to grow, causing the driller's net asset value and earnings to expand.

Gran Tierra also possesses a key advantage over its peers operating in North America: it can access international Brent pricing, giving its profitability, and hence earnings, a solid boost.

You see, Brent trades at a premium to the North American benchmark West Texas Intermediate (WTI), which, despite narrowing in recent weeks, is still over US\$4.70 a barrel, giving Gran Tierra's earnings a lift.

Aside from growing production and strong exploration upside indicating that Gran Tierra is attractively valued, the driller's oil reserves have a net asset value before tax of \$7.34 per share, which is 69% higher than its market price. This indicates the considerable potential upside of Gran Tierra's stock.

### **So what?**

If oil remains firm at current levels over the remainder of 2018, or rises further, Gran Tierra's market value will soar — even more so when the company is on track to unlock considerable value through its high-quality oil acreage because of its drilling program, which will significantly boost production as well as reserves.

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