Latest Results Highlight That This Is a Top Energy Stock to Play Higher Oil

Description

Oil's unexpected rally, which sees the North American benchmark West Texas Intermediate (WTI) up by 14% for the year to date to be trading at US$69 a barrel, has garnered considerable attention for beaten-down energy stocks. One company that stands out as a highly attractive investment in the current operating environment is intermediate upstream oil producer **Whitecap Resources Inc.** (TSX:WCP). Not only did it report solid second-quarter 2018 results, but it has failed to keep pace with oil falling by over 6% since the start of 2018.

Now what?

Key to Whitecap's strong results was a remarkable 72% year-over-year increase in production to 433,380 barrels daily. This gave revenue a solid boost, and — along with higher oil — saw cash flow from operations grow to $226 million, which was just over 1.5 times greater than a year earlier. It also saw the driller reissue its 2018 guidance, boosting the upper end of its projected annual production to 75,000 barrels daily, which is 200 barrels a day more than its previous guidance and 31% greater than 2017.

More importantly, the profitability of Whitecap's operations expanded considerably during the quarter because of higher oil. The driller's netback expanded by 18% year over year to $31.75 per barrel, despite operating expenses rising by 6%, although this was offset by a 3% decrease in transportation costs.

Whitecap's margins were also boosted by a 3% year-over-year decrease in general and administrative expenses.

An important aspect of Whitecap's operations is that its oil output, like its reserves, is weighted to Canadian light crude and natural gas liquids. This means it isn't exposed to the deep discount applied to heavy oil known as Western Canadian Select (WCS) or sharply weaker natural gas prices.

As a result, for the second quarter, Whitecap averaged $62.82 per barrel sold, which was 28% higher year over year and greater than the average price received by Canadian oil sands producers.

You only need to turn to **Cenovus Inc.'s** results to see this. Canada's third-largest oil sands operator and bitumen producer only received an average price of $46.87 per for the quarter because of the deep discount applied to WCS and the considerable proportion of its production made up by natural gas.

Regardless of this solid operational performance, Whitecap still reported a net loss of $3.6 million compared to a $44 million profit a year earlier. This disappointing bottom-line result can be blamed on Whitecap reporting an almost $111 million loss on its risk-management contracts compared to a $33 million profit a year earlier.

You see, Whitecap, like many other oil companies, elected to establish a hedging strategy aimed at reducing the impact of weaker oil or another slump in prices on its finances. It did this by putting in place a series of derivative oil price and foreigner currency hedging contracts aimed at reducing the financial impact of weaker prices.

However, because oil has performed stronger than expected, with WTI averaging around US$65 a barrel since the start of the year, which is higher than the US$50-$60 a barrel forecast, Whitecap has incurred a loss on those contracts. It should be noted that a large portion of those contracts will unwind at the end of 2018, meaning that should oil remain firm, which is highly likely, then Whitecap's bottom line will receive a solid boost.

So what?

Whitecap is well positioned to benefit from higher oil. Steadily growing production, a solid financial position, and rising operational profitability all bode well for an improved bottom line. If investors buy Whitecap now, they can lock in a sustainable dividend yield of just over 3%. Because of growing cash flow and net earnings, there is every likelihood that Whitecap will hike its dividend in coming months.

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