



## 1 Key Reason Why This Oil Stock Is Poised to Soar

### Description

Higher oil has been a boon for the North American energy patch, but [lingering doubts](#) among investors over whether it can be sustained has seen many energy stocks lag behind crude. One such stock is **Whitecap Resources** ([TSX:WCP](#)), which has lost 6% since the start of the year, despite the North American benchmark West Texas Intermediate (WTI) gaining roughly 19%. This has been a disappointing result for investors, because typically upstream oil producers are a levered play on the value of the underlying commodity, which means that when oil, rises their stock typically appreciates at a far greater rate.

However, this has created an opportunity for investors seeking to bolster their exposure to the increasingly positive outlook for crude, because Whitecap's growing oil production and high-quality assets will ultimately act as a powerful tailwind for its market value.

### Now what?

Whitecap is a light and medium oil producer focused on the Cardium, Viking, Shaunavon, and Deep Basin oil plays in Western Canada. Most of its oil reserves and production is weighted to light and medium crude as well as natural gas liquids. This means that it is not exposed to the considerable discount that applies to Canadian heavy oil, which is [adversely affecting](#) the financial performance of many oil sands operators.

The driller is growing production at a steady clip. For the second quarter 2018, it expanded by a remarkable 35% compared to a year earlier because of the considerable investment Whitecap has made in developing its assets. This coupled with the relatively low-cost nature of its operations saw the driller report a healthy operating netback of \$31.75 per barrel for that period, which was a notable \$4.80 a barrel greater than the equivalent period in 2017. That solid lift in Whitecap's netback occurred despite it incurring a \$5.97 a barrel loss because of its hedging contracts.

Those hedges, which were put in place to protect Whitecap from any sharp decline in oil prices, will unwind between the end of 2018 and June 2019. As that process occurs, the driller's profitability will grow at a rapid clip.

You see, like many smaller intermediate upstream oil producers, Whitecap didn't expect oil to rally as substantially as it has since the start of 2018, and like many analysts, it was concerned that it could sharply weaken once again. That saw the company establish the contracts as a means of reducing the financial risks posed by another collapse of oil prices.

Nonetheless, since the start of 2018, WTI is trading at close to US\$70 a barrel, [well above](#) the US\$50-60 per barrel predicted by many industry insiders. That caused Whitecap to incur a considerable loss on its oil price hedging contracts, which, for the second quarter, came to \$110 million.

This — along with higher financing as well as depletion, depreciation, and amortization expenses — was a key reason, despite higher oil, for Whitecap's second-quarter net loss of \$3.6 million compared to a profit of \$44.5 million for the same period in 2017. Once those contracts come to an end, Whitecap's profitability will soar, especially when its robust production growth, low expenses, and high operational profitability are considered.

### So what?

Whitecap remains one of the top ways for investors to play firmer crude. Its latest pullback has created an opportunity for risk-tolerant investors to cash in on rising oil prices. This is because once Whitecap's risk-management contracts end, its earnings will expand at a solid clip, giving its stock a healthy lift. While investors wait for the driller's stock to appreciate, they will enjoy its regular and sustainable dividend, which yields almost 4%.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

### TICKERS GLOBAL

1. TSX:WCP (Whitecap Resources Inc.)

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