1 Top Oil Stock to Play Higher Oil

Description

Despite the emergence of a range of bearish indicators, crude bounced back from its recent slump to see the North American benchmark West Texas Intermediate (WTI) climb to just shy of the US$70-a-barrel mark. There are signs that even with the North American rig count expanding and U.S. shale oil production beating estimates that WTI could move higher. This would be a boon for Canada's beaten-down energy patch, making now the time for investors to load up on quality oil stocks. Among the best is intermediate upstream oil producer **Bonterra Energy** (TSX:BNE).

Now what?

Bonterra is focused on drilling for light oil in the Pembina Cardium formation located in Western Canada, where it has 353 sections of land containing oil reserves of just under 100 million barrels. Those reserves are 62% weighted to light and medium crude, minimizing the impact of weak natural gas prices as well as eliminating the financial risks posed by the deep discount applied to Canadian heavy crude.

Importantly, Bonterra's wells have low decline rates, giving the driller an overall corporate decline of 22%. This means that compared to other oil producers with higher decline rates, less capital is required to sustain production, meaning that overall operating costs are low.

For 2018, Bonterra estimates that total all-in costs will be $21.73 per barrel produced, which is lower than many of its peers. That means its oil-producing acreage is highly profitable, as underscored by its second-quarter 2018 field netback of $34.69 per barrel of oil produced, which is one of the highest among its Canadian upstream oil producers. This netback was also $6 a barrel greater than the second quarter 2017 because of firmer oil prices.

Such highly profitable operations will continue to boost Bonterra's earnings in an operating environment where oil is rising.

This is further enhanced by the driller's ability to grow production. For the second quarter, Bonterra reported that its oil output had expanded by 6% year over year to 13,946 barrels daily. Production will continue to grow at a healthy rate because Bonterra has a large drilling inventory totaling 738 locations across its Cardium acreage. This coupled with an exceptional drilling success rate of 100% for the first half of 2018 virtually ensures that reserves and production will expand at a decent clip.

As result of these low-cost operations, rising production, and firmer crude, Bonterra reported that second-quarter net earnings were almost three times greater than a year earlier.

Another appealing aspect of Bonterra is its financial strength. The company ended the second quarter with long-term debt totaling $303 million, which is a manageable 2.9 times operating cash flow. The combination of rising production and higher oil will cause cash flow to increase at a solid rate, allowing Bonterra to boost capital spending as well as allocate additional funds to reduce debt.

So what?

Bonterra is an attractive play on higher oil, especially because of the quality of its Cardium acreage and ability to expand oil reserves as well as production. Over the last month, the driller has lost 6% of its value compared to WTI, gaining almost 7%, creating an opportunity for investors seeking to cash in on the optimistic outlook for crude. While they wait for Bonterra's stock to appreciate, they will be rewarded by its regular monthly dividend, which currently yields a very juicy 7%.

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mattdsmith