The Latest Deal Highlights Why This Oil Stock Is a Top Way to Play Higher Crude

Description

Oil continues to bubble higher. We're now seeing the American benchmark West Texas Intermediate (WTI) trading at over US$70 a barrel and up by 26% for the year to date. This will be a boon for beaten-down Canadian energy stocks.

One of the best performers for the year to date has been light oil producer **Surge Energy Inc.** (TSX:SGY), which has gained 23% over that period. There is every indication that the driller's market value will continue to appreciate over the coming months.

Now what?

Surge is focused on drilling for light oil from reservoirs with conventional characteristics. At the end of 2017, it had reserves of 95 million barrels of oil, which were 82% weighted to oil and natural gas liquids. Those reserves have been calculated to have a net-asset-value (NAV) of $6.06 per share, or more than twice Surge's current market price.

This indicates that there is considerable upside on offer for investors, especially when considered that the value of the Surge's reserves will expand because of higher oil.

You see, the NAV was calculated using a forecast average 2018 price for WTI of US$55 per barrel and US$65 for 2019, which are lower than the US$66 a barrel averaged since the start of this year.

Surge with a company-wide decline rate of 24% is a low cost operator. This is because the lower the decline rate, the less capital that is required to sustain production from existing wells.

And that, along with relatively low production expenses means that Surge's operations are highly profitable, particularly in an operating environment where WTI is trading at US$70 per barrel or greater.

This is highlighted by its high operating net back, which is a key measure of operational profitability. For the second quarter 2018, Surge reported a netback of $29.84 per barrel, or a notable 22% higher quarter over quarter and 27% greater year over year.

When coupled with Surge's ability to expand production, which for the second quarter rose by 13% year over year to 17,072 barrels daily and was 81% weighted to oil as well as other petroleum liquids, its earnings will soar.

Production will continue to grow because earlier this month, Surge announced the planned $320 million acquisition of light oil producer Mount Bastion Oil & Gas Corp. On completion, the purchase will boost Surge's oil reserves by roughly 30 million barrels and add 5,500 barrels of daily production.

It is predicted that this will lift the NAV of Surge's oil reserves to $6.52 per share, reduce the company-wide decline rate to less than 24%, and expand its netback by 12% to over $31 a barrel.

The purchase also bolsters Surge's drilling inventory and the estimated volume of original oil in place to 2.4 billion barrels, indicating considerable exploration upside ahead. The deal will be funded by the payment of $145 million in cash and the issuance of 75.4 million Surge shares.

So what?

The latest announcement emphasizes Surge's attractiveness in an environment where oil is firming. It will give earnings and ultimately the driller's share price a solid lift. While investors wait for that to occur, they will be rewarded by Surge's regular monthly dividend yielding just under 4%, which, with a targeted payout ratio of 20% to 30% is clearly sustainable.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:SGY (Surge Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/27
Date Created
2018/09/26
Author
mattdsmith