



Latest Results Confirm it Is Time to Buy This Driller to Play Higher Oil

Description

I have [been bullish](#) on intermediate upstream oil producer **Gran Tierra Energy** ([TSX:GTE](#))(NYSE:GTE) for some time. There are signs, despite it gaining 11% for the year to date, that Gran Tierra remains attractively valued and is one of the top ways to play higher oil.

Now what?

For the third quarter 2018, Gran Tierra reported record quarterly production of 36,170 barrels daily, which was 11% higher than the equivalent period in 2017. That notable increase in production can be attributed to the considerable investment it has made in developing the Acordionero Field in Colombia's Middle Magdalena Valley basin, which is the Andean nation's oldest oil-producing region. Since 2016, oil output from Acordionero has almost tripled and will continue to grow at a rapid clip, as Gran Tierra invests further capital in developing the asset.

This strong growth leaves Gran Tierra on track to meet its full-year 2018 production guidance of 36,500-38,500 barrels daily, which at the top end of the forecast range, is an impressive 23% higher than 2017. The ability to grow oil output at a healthy clip is an important attribute in an operating environment where the price of crude is firming.

Gran Tierra's operating netback — which is a key measure of operational profitability — shot up by an impressive 70% year over year to US\$47.41 per barrel of oil produced, which is one of the highest among Gran Tierra's peers. That illustrates the significant profitability of the company's developed and producing oil assets.

The remarkable increase in Gran Tierra's netback can be attributed to substantially higher oil with it realizing an average price of US\$66.42 per barrel sold for the quarter compared to US\$41.09 a year earlier. There is every indication that crude will remain firm for the remainder of 2018 and into 2019, boding well for improved profitability from Gran Tierra's operations.

A key advantage that Gran Tierra has over its peers operating solely in North America is that it can access international Brent pricing.

You see, the spread between Brent and the North American benchmark West Texas Intermediate (WTI) has [widened significantly](#) since the start of 2018 to see the international benchmark trading at a US\$9.50 a barrel premium. According to some analysts, that price differential could widen even further, potentially to as high as US\$15 a barrel.

That price differential gives Gran Tierra a handy financial advantage compared to those oil companies operating only in North America. Gran Tierra's strong operational performance coupled with higher oil saw it report record quarterly net income of US\$75 million, which was 24 times greater than a year earlier.

What makes the driller a particularly appealing investment is that its capital program is funded from cash flow, leaving its pristine balance sheet intact. Gran Tierra ended the third quarter with US\$130 million of cash and just under US\$400 million in long-term debt. The strength of the driller's balance sheet is underscored by the fact that net debt is a very manageable 0.8 times funds flow from operations and a mere 0.6 times EBITDA.

So what?

Gran Tierra reported some strong third-quarter 2018 results, which indicate the considerable value that it is capable of unlocking from its oil assets located in Colombia. Through a series of acquisitions and organic growth Gran Tierra has become one of the largest privately owned oil producers in Colombia and the premier landholder in the nation's southern Putumayo basin. Its appeal as an investment is enhanced by the fact that its oil reserves have a net present value (NPV) of \$8.41 per share before tax, which is slightly more than double Gran Tierra's current market price, indicating that is very attractively valued with plenty of upside ahead.

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