Insiders Are Piling Into This Oil and Gas Stock

Description

Tamarack Valley Energy Ltd (TSX:TVE) isn't a household name in Canadian equity markets. With a market cap of just $550 million, it often falls through the cracks of analyst coverage, meaning many independent investors never come across the company.

But for company insiders, Tamarack Valley's brightest days are ahead of it. Since 2017, company executives have purchased nearly one million shares. Over that time, the company has also repurchased and cancelled 1.1 million shares.

Should you follow Tamarack's management team and begin to accumulate shares?

Tamarack is well positioned for difficult times

There's no denying that oil and gas producers are facing difficult conditions. Burgeoning, low-cost supply from North America has flooded the markets, and structural limitations in Canada stemming from the lack of pipelines and terminals have caused production there to sell at a 30% discount or more. Not to mention that dozens of operators have tacked on large debt loads to finance big acquisitions at the top of the market cycle.

But as Tamarack insiders likely know, the company is positioned incredibly well. In today's market, you want an energy producer to display the following characteristics: limited debt, low production cost and rising output.

Tamarack currently has a 0.7 times net debt to netback ratio — a ratio that isn't as complicated as it appears. Netbacks are calculated by subtracting the costs associated with getting the oil to a market from the revenues earned — a quick way to determine a producer's profitability.

Tamarack's current position is that it can pay off its entire debt load with its current level of profitability. While it wouldn't necessarily leave much funds leftover for capital expenditures, it does add a certain level of safety, especially in an environment in which many competitors are teetering on the brink of insolvency.

Tamarack's production profile is also extremely attractive, meaning that its net debt to netback ratio may improve over time, even with current oil prices.

The company ended 2018 with around 24,000 barrels per day of production. In 2019, it anticipates production to average 25,500 barrels per day, rising to 28,000 barrels per day by the end of the year. That equates to nearly 17% production growth over the next 12 months.

In an encouraging sign, the company isn't anticipating this growth assuming higher selling prices. Many companies have established capital expenditure plans that rely on rising energy prices. If higher prices aren't realized, much of their anticipated production will prove to be economically unviable. Not so with Tamarack.

In 2018, for example, management assumed selling prices of just US$57 per barrel. For the year, prices actually averaged something closer to US$60 per barrel. Still, even at management's lower expectation of US$57 per barrel, the company's operating netback (how much profit it makes per barrel of oil) was around $26 per barrel. That means current prices can fall by 40% and Tamarack would still be turning a profit from its production.

Tamarack's management team has reason to be bullish

Company executives only buy shares for one reason: to make money. For a company of Tamarack's size, to see multiple insiders purchase a total of nearly one million shares is a compelling signal to potential investors.

While the company's future will no doubt be dictated by the long-term price of oil, Tamarack is well positioned to survive the downturn and thrive in any potential rebound. Since 2014, management has been able to reduce its production costs every year. In 2019, management expects cost reductions to continue.

With rising production, low debt levels, falling costs, and heavy insider buying, Tamarack is a hidden gem for energy investors.

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