1 Top Energy Stock That Is on Sale Today

Description

Energy stocks have been under considerable pressure for some time because of sharply weaker oil and natural gas prices. Even OPEC's latest production cuts, Trump reinstating sanctions against Iran, and rapidly declining oil production in Venezuela have failed to re-balance global energy markets. There are signs, however, that crude will recover over the course of 2019, and analysts are tipping that the international benchmark Brent will reach US$70 before the end of the year. That makes now the time for investors to scoop up attractively valued energy stocks. One that not only appears cheap but is poised to soar as oil rebounds is **Gran Tierra Energy** (TSX:GTE)(NYSE:GTE).

Quality assets and growing production

Through a series of acquisitions, the driller has become one of the leading privately owned oil producers in Colombia and a dominant landholder in the Andean nation's southern Putumayo Basin. Gran Tierra has a proven history of growing its oil reserves and production, which have bolstered both its net asset value (NAV) and cash flow. By the end of 2017, it had proven and probable oil reserves of 137 million barrels of crude, which is more than double the six million barrels reported at the end of 2015 and 9% higher than the 126 million barrels reported at the end of 2016.

Most of Gran Tierra's reserves are weighted to crude and are valued at US$2.5 billion before tax, which, after deducting debt, is equal to a NAV of US$4.91 per share. This is more than double the driller's current market, illustrating the significant upside available to investors.

Importantly, the NAV of Gran Tierra's oil reserves was calculated using an assumed price of US$61.30 Brent, which is lower than the current spot price of US$61.59 per barrel. Should Brent continue to firm over the course of 2019, the value of Gran Tierra's reserves will expand, bolstering its market value.

By the end of 2018, Gran Tierra announced record daily production of 40,000 barrels of oil equivalent and that it had averaged 38,220 barrels daily over the fourth quarter 2018. This notable production growth, along with firmer oil, will give Gran Tierra's earnings a solid lift.

That is further enhanced by the driller's ability to access international Brent pricing.

You see, Brent trades at a substantial premium to the North American benchmark West Texas Intermediate which, despite the price differential narrowing in recent months, is still a very handy US$7.90 per barrel. This enhances the profitability of Gran Tierra's production as highlighted by its industry-leading third-quarter netback of US$47.41 per barrel, which was considerably greater than the netbacks reported by drillers operating solely in Canada.

Gran Tierra also has a solid balance sheet, despite making several acquisitions in recent years, including the 2016 transformative US$525 million purchase of PetroLatina Energy. It finished the third quarter with considerable liquidity, including cash totaling US$130 million and debt of US$399 million, which is a very manageable 1.1 times trailing 12 months EBITDA. That solid balance sheet leaves Gran Tierra capable of weathering any sustained downturn in crude.

For 2019, Gran Tierra is forecasting average daily production of 40,000-42,000 barrels daily, which, at the upper end, is 10% higher than the fourth quarter 2018, 18% greater than the average for the first nine months of 2018, and represents an increase of 34% over 2017.

In an environment where crude is tipped to rise, with many analysts predicting Brent will average US$65 per barrel during 2019 and reach as high as US$72 a barrel by the end of the year, such solid production growth bodes well for higher earnings.

Why buy Gran Tierra?

There are signs that oil is poised to move higher, and while it may not soar to US$80 a barrel, as some pundits have predicted, any rally will be a powerful tailwind for beaten-down energy stocks. Gran Tierra's growing production, high-quality assets, ability to access Brent pricing, solid operating netback, and strong balance sheet make it a very attractive play on higher crude. When those characteristics are considered in conjunction with it appearing undervalued because it is trading at less than half of the NAV of its oil reserves, there is every indication that the driller's stock will soar as crude firms.

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