



This Oil Stock Is on Sale at a Deep Discount, Making Now the Time to Buy

Description

Oil continues to gain ground with the international benchmark Brent surging by 23% since the start of the year to be trading at US\$66 a barrel. Despite this solid performance, many upstream oil producers, like **Gran Tierra Energy** ([TSX:GTE](#))(NYSE:GTE) have failed to keep pace, with the Colombia-based driller only gaining 4%. This has created an opportunity for investors seeking to boost their exposure to crude and access outsized returns.

Growing reserves and production

Gran Tierra reported some solid full-year 2018 results. These include record annual production of 36,209 barrels of oil daily, which was 15% greater than a year earlier. It also announced that its proven and probable oil reserves had grown by 4% to 142 million barrels of oil equivalent weighted 99% to petroleum liquids. Those reserves have been determined to have a net-present-value of US\$5.96 per share, which is almost triple Gran Tierra's current market value, underscoring the considerable potential upside available.

The driller continues to benefit from some of the highest netbacks in its industry, which is important to note because this is a key measure of operational profitability for an upstream oil producer. For 2018, Gran Tierra reported an operating netback of US\$41.85 per barrel, which was an impressive 42% higher than 2017 and one of the best among its peers. A key reason for the significant profitability of Gran Tierra's production is its ability to access Brent pricing.

You see, for some time the international oil price has been trading at a significant premium to the North American benchmark, West Texas Intermediate (WTI), which currently is close to US\$10 per barrel. That gives Gran Tierra a handy financial advantage over those drillers solely focused on operating in North America. While there [were claims](#) by some analysts toward the end of 2018 that the price differential could expand to well over US\$10 a barrel, this is unlikely, although it should remain at current levels for the foreseeable future.

For these reasons, Gran Tierra reported some solid full-year financial results. The driller's EBITDA, when compared to 2017, more than doubled to US\$377 million, while its net income jumped to US\$103

million compared to a US\$32 million loss a year earlier.

Gran Tierra also expects its 2019 oil production to grow by up to 19% to somewhere between 41,000 and 43,000 barrels daily. At US\$65 a barrel Brent, it has forecast an operating netback of US\$30-34.50 per barrel, which, combined with higher production, should give its earnings a healthy bump.

There is also every likelihood that oil will [appreciate further](#) with some analysts tipping that Brent could rise to as high as US\$75 a barrel during 2019, which would further boost Gran Tierra's earnings. Higher oil will also cause the value of the driller's reserves to increase because its net present value was calculated using an assumed Brent price of US\$64.50 per barrel for 2019 and US\$67.90 for 2020. This — along with rising earnings — would act as a powerful tailwind for Gran Tierra's stock.

Gran Tierra is also focused on expanding its oil reserves and production, possessing considerable exploration upside across its acreage, while making opportunistic acquisitions that fit with those existing properties. Late last month, Gran Tierra announced it had entered agreements to purchase private companies; on completion they will bolster its presence in Colombia's Putumayo and Llanos Basins as well as increase its 2019 production.

For a company that has been aggressively expanding its operations, Gran Tierra has a rock-solid balance sheet. It finished 2018 with considerable liquidity, holding US\$51 million in cash and no debt maturities until 2021. The driller's long-term debt of US\$399 million is a very manageable 1.1 times trailing 12-month EBITDA, and that ratio is expected to fall further as earnings grow.

Why buy Gran Tierra?

The outlook for oil continues to improve, making Gran Tierra a particularly attractive investment. Not only does it possess a quality portfolio of oil assets, significant exploration upside, and a strong balance sheet, but the driller is trading at a deep discount to the net present value of its oil reserves. This makes now the time for investors seeking outsized returns to buy Gran Tierra.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSEMKT:GTE (Gran Tierra Energy Inc.)
2. TSX:GTE (Gran Tierra Energy Inc.)

PARTNER-FEEDS

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

Category

1. Energy Stocks
2. Investing

Date

2025/07/02

Date Created

2019/03/07

Author

mattsmith

default watermark

default watermark