



## 2 Small-Cap Oil Stocks That Are Screaming Buys

### Description

The issues in the oil and gas sector have been disappointing, to say the least, but now that the worst has come and gone, and oil seems to have leveled off, it's time to start positioning your portfolio for a rebound in the commodities markets.

Regardless if the market doesn't correct in the short term, stocks have been decimated, and the ones with the lowest production costs will ultimately be the ones that will be able to survive the long haul. Finding these companies, ones with solid operations that are priced reasonably, and buying them to hold will yield the greatest results in the long term.

Let's look at two small but low-cost and well-run oil and gas producers **Bonterra Energy** ([TSX:BNE](#)) and **Surge Energy** ([TSX:SGY](#)).

### Bonterra Energy

Bonterra is a small oil and gas producer that produces nearly 13,000 barrels of oil equivalent per day (BOEPD), about two-thirds of which is oil and NGLs. The company is located entirely in the Cardium formation, where 97% of its oil production is light oil.

Like most oil and gas companies, its stock has been badly beaten up, mostly because its debt-to-cash-flow levels had started to get pretty high, especially when the fall in oil prices consequently reduced company cash flows dramatically.

The first thing the company did to address the problem was severely trim the dividend. This has freed up extra cash flow to reduce debt. The debt repayment is actually going pretty well, and the company seems to be slightly ahead of schedule.

Current net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) is 2.7 times, with total net debt of ~\$285 million. The company today stands at a market cap of ~\$160 million and pays a monthly dividend that currently yields ~2.5%.

Operationally, the company is in great shape. It has decent netbacks and low costs coupled with a low decline rate of just 21% — meaning less capital to maintain production.

In addition, insiders own ~25%, which is very reassuring. The large insider ownership also most likely contributes to the fact that the company's goal — to generate long-term growth while returning cash to shareholders — is exactly what investors want to see.

## Surge Energy

Surge is also a small company, though slightly larger than Bonterra. It produces approximately ~22,000 barrels a day, 85% oils and NGLs. It has locations throughout Alberta and Saskatchewan and produces mainly medium and light oil. Similarly to Bonterra, Surge also has low decline rate — just 23%.

Surge has been growing production substantially recently. Its \$320 million acquisition of Mount Bastion Oil and Gas in late 2018 is one of the reasons production has been increasing so much.

Surge has seen a 78% growth in production over the last 11 quarters. It produced about 12,000 BOEPD in Q2 2016; as of Q1 2019, the company was doing almost 21,000 BOEPD.

In that time frame, Surge has revised guidance upward six times for production, four of those times due to an acquisition and twice was from organic growth. The strong netbacks of Surge have allowed it to grow its production even at these new lower oil prices.

The dividend pays \$0.10 per share annually and is paid monthly, offering a current yield of [nearly 8%](#). Surge can afford to pay its dividend as long as oil stays above US\$55 for WTI; below that, company may start to have problems.

The net debt to EBITDA is in slightly better shape than Bonterra at 2.2 times. Total net debt is nearly \$420 million, while the company has a market cap of roughly \$400 million. It's also cheaper on an enterprise-value-to-BOEPD basis.

## Bottom line

Both companies have been mainly focusing on reducing debt to improve their financial positions as well as optimizing their operations to continue to improve their netbacks. With low decline rates and competitive pricing, these are two great options for future growth and income in a major industry like energy.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

### TICKERS GLOBAL

1. TSX:BNE (Bonterra Energy Corp)
2. 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**

2025/08/15

## **Date Created**

2019/07/30

## **Author**

danieldacosta

default watermark

default watermark