This Canadian Oil Stock Reported Some Solid Results: Is it Time to Buy?

Description

Oil continues to whipsaw wildly because of mixed news regarding the global economic outlook, North American oil inventories and geopolitical tensions in the Middle East.

Since the end of 2018, the international benchmark Brent has gained 17% but many energy stocks including **Gran Tierra Energy** (TSX:GTE)(NYSEMKT:GTE) have failed to perform.

The driller, which is focused on its oil acreage in Colombia, has lost 44% over the same period despite reporting some credible results for the second quarter 2019.

Gran Tierra has been battling to unlock value for shareholders for some time, and earlier this year was impacted by rising tensions in Colombia and operational outages which caused production to fall.

Improved results

Gran Tierra's second quarter 2019 net income soared almost twentyfold compared to the previous quarter to US$39 million or US$0.10 per share, which was double the same quarter during 2018.

That solid improvement in Gran Tierra's performance can be attributed to a 4% year-over-year increase in production net after royalties to 29,193 barrels daily and a 25% decrease in transportation expenses.

This helped to offset higher workover and operating costs, which were up by 53% and 26% respectively. Even after the sharp increase in expenses, Gran Tierra reported that EBITDA of US$115 million was 13% higher compared to a year earlier.

This demonstrates that the company can still perform strongly despite the operational outages that commenced during June 2019.

Those outages have forced Gran Tierra to revise its full-year 2019 guidance downward. This included reducing the upper range of its production guidance downward by 13% to 37,500 barrels daily and increasing development capital by US$10 million to US$15 million. The upper end of cash flow was reduced by 10% to US$355 million.

Nonetheless, pricing assumptions and the driller's operating netback of US$30 to US$34.50 per barrel of oil produced remain unchanged, boding well for a solid 2019 performance regardless of the outages.

Gran Tierra also expects operational and workover expenses to decline as the operational outages are dealt with and production returns to projected levels.

And that, combined with its ability to access premium Brent pricing, bodes well for higher profitability, particularly when compared to its peers operating solely in Canada.

In fact, with Brent trading at a US$4 per barrel premium to West Texas Intermediate (WTI), Gran Tierra possesses a handy financial advantage over those North American drillers that can only access the WTI benchmark.

The stock is also very attractively valued given that its proven and probable oil reserves of 150 million barrels have a net-asset-value (NAV) of US$6.02 per share, or more than three times greater than Gran Tierra's current market price.

That highlights the considerable upside available once oil undergoes another sustained rally, and Gran Tierra can demonstrate that the market perception of risk concerning its operations is overbaked.

Foolish takeaway

Gran Tierra, regardless of its considerable potential, has become highly unpopular with investors who are dissatisfied with its inability to unlock value.

There are signs, however, that the company's operations are improving which when combined with growing production, recent oil discoveries and the deep discount of its share price to the NAV of its oil reserves, makes it an attractive play on higher oil.

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
2025/08/25
Date Created
2019/08/14
Author
mattdsmith