This Oil Stock Is on Sale, Making Now the Time to Buy

Description

Intermediate upstream oil producer **Gran Tierra** (TSX:GTE)(NYSE:GTE) has been punished by the market, having lost 54% over the last year, despite the international benchmark Brent only losing 20%. There are a variety of reasons for this, including operational outages, heightened geopolitical risk in Colombia, where Gran Tierra's operations are focused, the call for Colombia's largest leftist guerrilla group to re-arm, and the uncertain outlook for crude.

The company has experienced this considerable weakness, despite reporting some solid financial results, experiencing significant drilling success, and resolving the operational issues impacting its production. While there are certainly headwinds ahead for Gran Tierra, it is very attractively valued and trading at a deep discount to the net asset value (NAV) of its oil reserves, making now the time to buy.

Improved results

Despite operational outages causing second-quarter production to be lower than anticipated and the impact of weaker oil, Gran Tierra reported that net income shot up by an impressive 90% year over year to almost US$39 million. This occurred even after allowing for softer Brent, which saw Gran Tierra realize an average sale price of US$59.30 per barrel for the quarter, which was 8% lower than a year earlier.

While the driller's netback fell because of weaker crude, it was still a notable US$40 per barrel, which was higher than its peers operating solely in Canada. That occurred because Gran Tierra can access international Brent pricing, which trades at a premium to the North American benchmark West Texas Intermediate (WTI) and lower operating expenses.

A key development during the quarter was the successful completion of installing the Acordionero infrastructure, which will allow for total production of 30,000 barrels daily, thereby giving Gran Tierra's oil output a healthy lift. The fact that the Gran Tierra's drilling program is funded from cash flow coupled with an impressive exploration success rate makes it an appealing play on higher oil.

Nonetheless, what makes Gran Tierra an especially attractive investment is the fact that it is trading at a deep discount to its NAV. The company's proven and probable oil reserves of 150 million barrels at the end December 2018 were determined to have a NAV of US$6.02 per share, which is around four times higher than Gran Tierra's market value. That highlights the considerable upside on offer for investors seeking to boost their exposure to oil and higher prices.

A key risk that needs to be considered is that the security situation in Colombia has worsened. The historic 2016 peace accord with the largest armed group**,** the FARC**,** appears to be on the brink of disintegrating. Numbers of demobilized guerrillas have again taken up arms, the volume of dissident FARC groups is rising, and the last remaining major leftist guerrilla group, the ELN, has ramped up attacks with the support of Venezuela.

Many of those attacks are focused on disabling energy infrastructure, notably oil pipelines, which are the only economic means of moving large volumes of crude in the mountainous nation. The latest attack was the bombing of the Transandino pipeline in the southwestern department of Putumayo earlier this week. That pipeline forms a vital link between Gran Tierra's operations in the Putumayo Basin and the Pacific port city of Tumaco.

There has also been increased unrest in many rural communities, where blockades have occurred, preventing energy companies from effectively accessing their mineral concessions.

Foolish takeaway

It appears that the market is overbaking the level of risk and not considering Gran Tierra's considerable strengths. This has created an opportunity to acquire a quality intermediate upstream oil producer, which is growing production, possesses a solid balance sheet, and is trading at a deep discount to its NAV.

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