Is It Finally Time to Buy Frontera Energy (TSX:FEC)?

## Description

The last three years has been tough for investors in resurrected oil company **Frontera Energy** ( TSX:FEC). Formerly known as Pacific Rubiales, the company emerged from bankruptcy in 2016 and has lost 27% over the last year as the price of Brent has weakened.



Frontera has struggled to unlock value from its portfolio of mineral concessions located in Colombia and Peru, which has weighed heavily on its stock and the company's outlook.

Nonetheless, at the start of August, Frontera announced a special dividend $0.535 per share and a 20% increase in its regular quarterly dividend, indicating that there has been a significant improvement in its operations and that it may finally unlocking value.

# Strong results

The dividend announcement came on the back of Frontera releasing some impressive second quarter 2019 numbers, including an almost five-fold year-over-year increase in net income to US$228 million.

That strong performance was driven by higher production, which grew by 3% year over year to 74,385 barrels daily, a healthy 14% increase in the average realize price per barrel of crude sold and a notable 10% decrease in production costs.

The profitability of Frontera's operations during the quarter improved substantially, with its operating netback gaining an impressive 28% year over year to US$36.45 per barrel pumped.

That netback is significantly higher than Frontera's peers operating in Canada, with light oil producer **Whitecap Resources**, which is focused on oil exploration and drilling in Alberta and Saskatchewan, reporting a netback of US$23.25.

Frontera's ability to generate superior netbacks compared to its Canadian peers can be attributed to their ability to access international Brent pricing and lower operating expenses.

Brent typically trades at a premium to the North American West Texas Intermediate (WTI) benchmark. While the premium has narrowed significantly in recent months, Brent is still trading at around US$5 per barrel higher than WTI, giving Frontera a financial advantage over its peers operating solely in Canada.

That highlights why investors seeking to bolster their exposure to crude should consider adding the driller to their portfolio.

Frontera also finished the period in a sound financial condition. This included cash of US$354 million and long-term of US$329 million, which is less than one times Frontera's trailing 12 months (TTM) EBITDA, indicating that the debt can be easily managed, even if oil prices collapse once again.

The strong second quarter 2019 performance saw Frontera revise its full-year guidance, increasing forecast EBITDA by 29% and reducing production costs by 6%.

Along with firmer oil prices since the attack on Saudi Arabia's oil infrastructure, which knocked out around half of the kingdom's production capacity, this bodes well for improved earnings for the second half of 2019.

Frontera is also actively developing its existing portfolio of mineral concessions and boosting its presence in Colombia, acquiring the Llanos-99 block and VIM-22 block in the Llanos and Lower Magdalena basins, respectively.



By hiking its dividend, Frontera now yields a very juicy 6%, which increases to 10% if the $0.535 special dividend paid in August is included.

It's important to understand that while Frontera is offering a juicy yield, dividends are only payable under its dividend policy if Brent oil prices sustain an average price of $60 per barrel or higher for the period.

That means that because of the considerable uncertainty surrounding the outlook for crude, investors shouldn't buy Frontera for the dividend and that juicy yield.

## Foolish takeaway

Frontera has been a difficult oil company to like, struggling to unlock value from its existing assets and reward investors for the degree of risk associated with the company.

It does appear, however, that Frontera is now delivering value for investors and will continue to do so for the foreseeable future, making now the time to buy.

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