



Buy This Oil Stock Yielding Almost 8% Ahead of Earnings

Description

Oil has rallied sharply over the last week to see the international Brent benchmark up by 22% since the end of 2018. While that has been a boon for some energy stocks, it has failed to lift many Canadian oil stocks. Colombia-focused driller **Frontera Energy** ([TSX:FEC](#)) has lost 13% for the year to date, even after commencing the payment of dividends. Frontera, which was previously known as Pacific Rubiales and then Pacific Exploration, emerged from bankruptcy in late 2016. This — combined with earlier accusations of it engaging in unlawful business practices and damaging shareholder value through excessive spending on corporate operations as well as poor-quality acquisitions — has seen it largely ignored by the market.

Nonetheless, Frontera came out of its bankruptcy restructuring as a leaner operator, generating considerable cash flow with a rock-solid balance sheet. There are signs that after having resolved many legacy issues, Frontera is [finally capable](#) of delivering value for shareholders and regaining market confidence.

Improved results

Frontera delivered some solid second-quarter 2019 results and appears on track to do the same for the third quarter. For the second quarter, this included notable production growth where daily output expanded by 3% year over year to 74,385 barrels, indicating that Frontera has resolved the issues that were causing its production to decline.

Frontera's netback for the period also grew, rising 28% year over year to US\$36.45 per barrel, which is higher than many of its peers operating in Canada, demonstrating the considerable profitability of its producing oil assets. That notable improvement for what is an important measure of operational profitability can be attributed to a higher average realized sale price, which expanded by 14%, despite Brent losing 8% compared to a year earlier.

This impressive result can be attributed to Frontera's hedging program, which is responsible for the higher realized price, despite weaker crude. A healthy 4% year-over-year reduction in production costs also further bolster Frontera's netback, boding well for increased profitability over the remainder of

2019 and into 2020.

Both Frontera's hedging strategy as well as its focus on reducing expenses are a positive development in an operating environment where crude remains soft and there are fears of another [oil price collapse](#) occurring.

The driller's third-quarter oil production of 70,200 barrels daily, which, while lower than the previous quarter, was still 6% greater than a year earlier.

Those solid results mean that Frontera was able to revise its 2019 guidance upward, including lifting its forecast EBITDA by up to 31%, with it expected to be between US\$525 million to US\$575 million. That can be primarily attributed to a lower price differential for the crude blends produced by Frontera against the international Brent benchmark and lower production costs.

On reporting that it has successfully achieved those results, Frontera's share price should appreciate considerably.

While Frontera's ability to resolve many of its legacy issues that were impacting operations combined with its ability to grow production increase its attractiveness as an investment, they aren't the most compelling reasons to buy the stock. What makes the driller a handy addition to any portfolio for investors seeking to boost their exposure to oil is that Frontera is trading at around half of its after-tax net asset value of \$22 per share. This highlights the considerable capital gains that are ahead for investors, as Frontera proves to the market that it can unlock value and oil firms once again.

Another key aspect of Frontera's operations that makes now the time to buy is that the driller has started paying dividends. After paying a special dividend earlier this year and recently hiking its dividend, it has a juicy yield of 7.60%. It is worth noting that Frontera's dividend policy stipulates that it will only pay quarterly dividends during periods where Brent averages US\$60 per barrel or higher.

Foolish takeaway

Frontera is fast shaping up as a deep-value play on higher crude. Frontera's ability to access international Brent pricing gives it a financial advantage over its peers operating solely in Canada, while its initiatives to unlock value are finally benefiting shareholders. When these factors are considered in conjunction with Frontera trading at a deep discount to the value of its oil reserves, now is the time to buy.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:FEC (Frontera Energy Corporation)

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1. Business Insider
2. Msn
3. Newscred
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Author

matttdsmith

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