Canadians: I Just Bought Shares of This 1 Stock: You Should, Too!

Description

Gran Tierra (TSX:GTE)(NYSE:GTE) is several quarters from achieving positive retained earnings. This is important, as it indicates the company has more periods of net income than net loss. Gran Tierra is engaged in the acquisition, exploration, development, and production of oil and gas properties in Columbia.

An interpretation of the numbers

For the six months ended June 30, 2019, the company reports a mediocre balance sheet with US$258 million in negative retained earnings. Despite this, the company's total assets increased significantly from US$1.7 billion as at December 31, 2018 to US$2 billion as of June 30, 2019. This increase is largely driven by a US$139 million increase in the value of the company's proved oil and gas reserves. This gain is offset by an increase in long-term debt of US$293 million, which increased total liabilities from US$477 million to US$796 million.

The company's income statement is positive with an increase in revenues from US$302 million to US$311 million. Given operating expenses of US$236 million, the company finished the period with US$75 million in pre-tax income. After deductions, the company reports net income of US$41 million, which is up from US$38 million the prior year.

Cash flow continues to be strong with cash from operations of US$93 million, down from US$131 million the prior year, driven by an increase in cash outflow of US$32 million for net change in assets and liabilities from operating activities. The company repurchased US$24 million in common shares while receiving and paying off US$163 million in bank debt (which it achieved by issuing US$300 million in senior notes). Capital expenditure spending increased from US$157 million in 2018 to US$194 million in 2019.

But wait, there's more

Looking at the company's notes to its financials indicate a couple of important items.

Firstly, the company acquired 36.2% working interest in the Suroriente Block and a 100% working interest of the Llanos-5 Block for cash of US$79.1 million and a US$1.5 million promissory note. Investors should keep an eye on future announcements regarding these sites, as it could indicate additional revenue opportunities for Gran Tierra in the future.

Secondly, the company benefitted from a tax reduction from 58% in 2018 to 46% in 2019. Thus, the company reported a decrease in its deferred income tax expense, which was US$23.3 million in 2019 compared to US$36.7 million the prior year.

Thirdly, the company provided letters of credit totaling US$122.5 million. Given that this is reported in the notes, the US$122.5 million is an off-balance sheet item. As at June 30, 2019, the company has access to a US$300 million revolving credit facility, which remains undrawn. Thus, I am not concerned about the company's ability to satisfy this obligation in addition to its others.

Finally, the company has spent US$15 million buying and cancelling shares in this period. This is an indication that senior management believes its share price is undervalued.

Foolish takeaway

Investors looking to diversify their portfolios and purchase shares of an oil and gas company should consider Gran Tierra. With retained earnings on the cusp of being positive and a decent cash balance with an undrawn credit facility, investors should consider buying shares of Gran Tierra.

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