This Driller Is on Sale: Buy Today Lock In a 9% Yield and Profit in 2020

Description

Once again, the Latin American nation of Colombia is in the headlines for the wrong reasons. The presidency of Ivàn Duque has been rocked by nationwide protests on a range of matters, including pension, salary, and tax reform, the failure to implement the historic peace deal with the FARC guerrillas, and rising corruption.

The latest unrest is a deterrent for foreigner investors and has the potential to disrupt Colombia's vital oil industry. **Bank of Nova Scotia** could also be impacted if the unrest causes economic growth to slow.

Investors shouldn't be deterred from Colombia's energy patch, where many Canadian TSX-listed drillers operate. One that has finally started to unlock considerable value for shareholders and appears too cheap to ignore is **Frontera Energy** (TSX:FEC). The driller has failed to rally, losing 27% since the start of 2019, despite oil gaining a handy 29%, underscoring the opportunity that now exists for investors.

Unlocking value

The considerable potential capital gains available are underscored by Frontera trading at a 119% discount to its after-tax net asset value (NAV). The driller, which emerged from bankruptcy in 2016, has resolved many legacy issues, which were impacting its operations, and reported some solid third-quarter 2019 results.

Frontera reported that average third-quarter net production had expanded by 10% compared to a year earlier to 64,271 barrels daily. It also announced a solid netback for the quarter of US$29.61 per barrel of crude sold, which was 15% higher year over year because of lower production and transportation costs.

An upstream oil producer's netback is a key measure of the operational profitability of its oil assets. Frontera's growing profitability, despite its averaged realized sales price per barrel of oil sold falling by $0.07, confirms that Frontera is unlocking value from its mineral concessions.

The improved performance coupled with an increasingly positive operating environment saw Frontera revise its 2019 guidance upwards with it expecting annual EBITDA of US$525 million to US$575 million, primarily because of higher oil and lower costs.

As Frontera's earnings grow because of improved efficiencies, lower costs, higher oil production, and firmer crude, its stock will appreciate. There is also every likelihood that the driller's NAV will continue to expand because of higher oil and increasing reserves due to Frontera's exploration and well development drilling.

Frontera's considerable exploration upside is enhanced by its presence in offshore Guyana, which is being touted as the location of the next big oil boom in South America. The driller has also obtained a 50% interest in the Perico and Espejo blocks in Northern Ecuador, further bolstering its long-term growth potential.

Aside from its ongoing focus on delivering value for shareholders, Frontera's appeal as an investment is enhanced by its solid balance sheet with no material debt maturities until 2023, and its recently initiated dividend payments. The company currently has a very juicy dividend yield of 9% and will maintain that payment if Brent averages US$60 per barrel during the period where it is applicable.

The strength of Frontera's balance sheet, growing earnings, and reduced costs indicate that the dividend is sustainable for as long as Brent averages US$60 per barrel of more, which is increasingly likely in the current operating environment.

Foolish takeaway

Frontera is a very attractive investment to gain exposure to higher oil. Its combination of attractive assets, high netbacks, solid balance sheet, and growing earnings will boost its market value. This is enhanced by its regular dividend, which is yielding a very juicy 9%.

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