



Will Gran Tierra Energy (TSX:GTE) Perform in 2020?

Description

It has been a tough year for shareholders in upstream oil producer and explorer **Gran Tierra** ([TSX:GTE](#))(NYSE:GTE). The driller's stock has fallen by a whopping 47%, even though the international oil benchmark Brent has gained 30% since the end of 2018. There are mounting fears that despite an improved outlook for crude, Gran Tierra won't bounce back any time soon. The sharp decline of Gran Tierra's market value sees it trading at around a quarter of the net asset value (NAV) of its proven and probable oil reserves.

Heightened risk

There are considerable and very real fears that Gran Tierra won't be able to unlock value for its oil concessions in Colombia, because of rising geopolitical risk and growing insecurity, especially in the regions where its oil acreage is located.

It was only a month ago that Colombia and many major cities were rocked by civil unrest, as protests against the administration of President Duque broke out. That unrest was sparked by a range of grievances, including pension and labour reforms, rising violence, police brutality, corruption, and the government's failure to implement the 2016 peace treaty with the FARC. It was feared that the unrest would escalate, leading to blockades of major roads and increased attacks on energy infrastructure, which would [curtail Colombia's](#) oil production.

Gran Tierra was forced to shutter operations at two oil blocks in the southern Colombian department of Putumayo because of farmer blockades, seeing it lose around 4,500 barrels daily of oil output. Putumayo, where Gran Tierra is a leading landholder, is responsible for a large portion of its oil production and has experienced a significant uptick in violence and insecurity since the FARC peace deal was signed.

There has also been a sharp increase in the volume of attacks on Colombia's oil pipelines, which are the only cost-effective means of transporting large volumes of crude because of the difficult terrain and lack of transport infrastructure. The Transandino pipeline, which connects the oil fields in the Putumayo Basin to the Pacific Ocean port of Tumaco is particularly vulnerable to attacks, with it located in a

region with significant internal unrest.

The last remaining guerrilla group, the ELN, has ratcheted up the volume of attacks on energy and transportation infrastructure to force the government back to the negotiating table. There has also been a marked increase in the volume of former FARC fighters rearming and joining various dissident groups after the government failed to fully implement the 2016 peace accord.

There are fears that further roadblocks and attacks on oil pipelines in Colombia will force Gran Tierra to shutter production, impacting earnings in an already difficult operating environment.

For 2020, Gran Tierra is forecasting production of 35,500 to 37,500 barrels daily, which is a moderate increase over the 35,454 barrels daily averaged for the first nine months of 2019. That is expected to generate EBITDA of US\$330 million to US\$350 million and free cash flow of US\$60 million to US\$80 million for 2020. Gran Tierra anticipates further reducing its debt, which has been another issue weighing on the company's outlook, to see net debt be a very manageable 1.4 times EBITDA by the fourth quarter 2020. If Gran Tierra achieves this guidance, it will go a long way to restoring market confidence in the company.

Foolish takeaway

Gran Tierra has been beaten down by a market that has lost confidence in the driller's ability to deliver value because of ongoing operational outages and security issues. While the outlook for Gran Tierra is not faultless, because of crude's ongoing volatility and heightened geopolitical risk in Colombia, the market's poor view of the driller is heavily overbaked. When it is considered that Gran Tierra is trading at a [deep discount](#) to its NAV, it is very attractively valued, and the risk/reward equation is in the favour of investors, making now the time to buy.

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