



Don't Ignore This Oil Stock Yielding Almost 8% in 2020

Description

Oil has rallied significantly since late 2019, when OPEC and Russia elected to cut their collective oil output by another 500,000 barrels daily.

While the risk premium, which was priced into crude due to tensions between the U.S. and Iran ratcheting up to their highest level in a decade, is deflating, there is still considerable uncertainty surrounding Middle East [oil supplies](#).

Those two factors will underpin higher oil during 2020 with the international benchmark Brent expected to trade at over US\$60 per barrel for the foreseeable future.

This will be a boon for many Canadian energy stocks that have been roughly handled by the market, despite higher oil. One upstream oil producer that is struggling to gain the attention it deserves is **Frontera Energy** ([TSX:FEC](#)).

The driller has lost 16% over the last year, despite Brent gaining 7% over that period. For this reason, Frontera, which emerged from bankruptcy in 2016, now appears attractively valued, especially when it is considered that it has overcome a series of legacy issues and production outages.

Improved performance

There are, in fact, clear indications that Frontera is finally unlocking considerable value from its high-quality portfolio of petroleum concessions, including rewarding shareholders with dividend payments during the second half of 2019.

Frontera's appeal as an investment is highlighted by the solid results reported for the first nine months of 2019, which placed it on track to meet and potentially exceed its full-year guidance. Average daily oil production for the third quarter reached 70,213 barrels daily, which was 6% higher than a year earlier and was 97% weighed to oil and other hydrocarbon liquids.

Frontera continues to report solid operating netbacks, which are a key measure of operational

profitability. For the third quarter, its netback was US\$29.61 per barrel, or, surprisingly, 15% greater than a year earlier, despite the Brent benchmark being 18% lower. This solid outcome can be attributed to Frontera's focus on boosting profitability through controlling costs, which saw production costs fall by a healthy 16% year over year and transportation expenses drop by 13%.

The driller's net average sale price per barrel for the quarter remained flat compared to the equivalent period in 2018, despite sharply weaker oil because of Frontera's hedging contracts.

Trading at a discount

What makes Frontera particularly attractive is that the company is trading at a discount to its net asset value (NAV). The driller's oil reserves totaling 171 million gross barrels have an after-tax net present value of US\$1.9 billion. After deducting total long-term liabilities including debt, leases, and decommissioning costs, Frontera's after-tax NAV is \$12.28 per share, which is 17% higher than Frontera's current share price, highlighting the upside available.

Frontera's appeal as an investment and play on higher oil is its sustainable dividend, which currently yields a very juicy 7.8%. The driller declared that it would start paying dividends in December 2018. In May 2019, Frontera announced that it would increase the payment by 20% for periods where Brent traded at an average of US\$60 per barrel or higher.

The payment's sustainability is further supported by Frontera's strong balance sheet with US\$314 million in cash at the end of the third quarter 2019 and no debt maturities until 2023. Frontera's long-term debt is a very conservative and manageable 0.7 times its trailing 12-month EBITDA, highlighting the strength of its balance sheet.

Foolish takeaway

Frontera has been long overlooked by investors because of the poor reputation created by its 2015 bankruptcy and a range of legacy issues. There are signs that the driller is finally [unlocking value](#) for investors, making now the time to buy, particularly with Frontera trading at a 17% discount to its NAV and paying a sustainable dividend yielding a very juicy 7.8%.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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1. TSX:FEC (Frontera Energy Corporation)

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