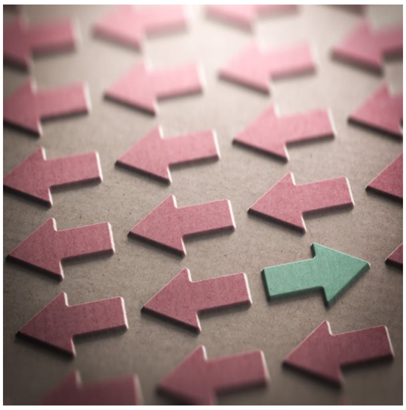

Have $1,000 to Invest? 1 Top Oil Stock for Contrarian Investors to Buy Today

Description

An oil apocalypse has arrived as a perfect storm of falling demand and growing supply causes prices to crater. The North American West Texas Intermediate (WTI) benchmark has lost a stunning 67% since the start of 2020, seeing it fall to its lowest price since 2002. There are signs of worse ahead for oil prices.

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Despite there being worse ahead for crude, investors shouldn't avoid all oil stocks altogether. The latest carnage has created an opportunity to acquire drillers with solid fundamentals at highly attractive valuations. One that stands out is **Frontera Energy** (TSX:FEC). The latest oil crash has caused its stock to tumble, losing a whopping 68% since the start of the year, which is more than Brent's 63% decline. That has left it attractively valued, making now the time to buy.

On sale

The sharp decline in Frontera's value sees it trading at a whopping 734% discount to its after-tax net asset value (NAV) of $26 per share. That highlights the considerable capital gains ahead for investors once oil recovers to pre-2020 oil crash levels and energy stocks rally.

Importantly, in the current difficult operating environment Frontera possesses solid fundamentals including a robust balance sheet. Frontera finished 2019 with a mere $375 million in long-term debt and lease liabilities. That is a very manageable less than one-times Frontera's annual EBITDA.

The strength of Frontera's financial position is underscored by the US$328 million in cash on its balance sheet at the end of 2019. This highlights that Frontera possesses considerable financial flexibility, which is highly important attribute to possesses in the current harsh operating environment.

Protecting its financial position

In response to the latest oil crash, Frontera has dialed down its 2020 capital expenditures by 60%. The driller has also shut-in a number of wells that are uneconomic to operate in the current environment.

Frontera is also focused on driving greater operational efficiencies and reducing costs.

Even after taking those actions, Frontera doesn't expect a material impact on its 2020 annual production. It anticipates that annual production will fall by a low 8% to an average of 55,000 to 60,000 barrels daily.

Frontera also has a hedging program in place. Those hedges cover 7.3 million barrels of oil production and, at a minimum Brent price, have a value of US$77 million. That will mitigate much of the risk associated with sharply weaker oil prices and preserve Frontera's cash flow.

In the current harsh environment, Frontera likely won't make any further dividend payments to shareholders. This is because a key part of its dividend policy is to only make those payments when the Brent price averages US$60 per barrel or higher for the relevant period. That is a sensible move, however, because it allows Frontera to preserve cash flow and protect its balance sheet in a difficult business environment.

Foolish takeaway

A combination of Frontera's solid balance sheet, strong financial position, and quality assets make it an attractive contrarian play on higher oil. The fact that the driller is trading at a deep discount to its after-tax NAV means there are considerable gains ahead once oil recovers, making now the time to buy.

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CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FEC (Frontera Energy Corporation)

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