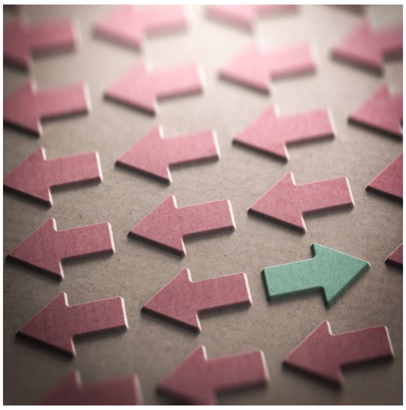

3 Contrarian Canadian Oil Stocks on Sale to Buy Today

Description

Many TSX-listed Canadian oil stocks appear extremely attractively valued after the latest oil price collapse. Their market value plunged sharply after oil prices dropped into negative territory last week. Even after recovering, the North American West Texas Intermediate (WTI) benchmark price is trading at around US$13 per barrel.

While the outlook for oil prices remains poor, it has created an opportunity to acquire Canadian oil stocks with solid fundamentals that are trading at deep discounts to their indicative fair value. Here are three contrarian, speculative, deep-value opportunities to profit from oil's eventual rebound.

Conventional oil producer

Intermediate oil producer **Surge Energy** (TSX:SGY) has done a solid job of surviving the prolonged oil slump, which truly began in 2015. Since the start of 2020, Surge is down a whopping 78%, indicating that it is attractively valued. It was one of the few Canadian upstream oil producers to retain its dividend, despite oil prices collapsing, although it finally suspended the payment in response to the latest oil crisis.

The quality of Surge's oil acreage and the fact that it targets conventional oil reservoirs means it a has low corporate decline rate of 23%. This is significantly lower than U.S. shale oil drillers. It means that Surge's capital spending, notably that required to maintain production, is significantly less than many of its peers focused on unconventional oil.

Surge has proven and probable oil reserves of 117 million barrels with an after-tax net present value of $1.5 billion. After subtracting long-term debt, decommissioning, and other non-current liabilities, Surge has an after-tax net asset value of $2.36 per share. This is more than nine times greater than its current price of $0.25 per share, highlighting that Surge is on sale and that there are considerable capital gains ahead once oil rebounds.

Surge has moved to shutter uneconomic production and cut spending to survive the oil price collapse. The driller's oil price hedges will help to shield its earnings from sharply lower oil.

Leading upstream oil company

Whitecap Resources (TSX:WCP) was forced to cut its dividend in half in response to the latest oil price collapse. The driller has lost 77% for the year to date, leaving it very attractively valued. While Whitecap is still paying a dividend yielding 13%, there is every likelihood that the payment will be suspended because of sharply weaker oil with WTI trading at around US$13 per barrel.

Whitecap also slashed its 2020 capital-spending program by 44% and is focused on introducing further cost reductions. The driller's commodity hedging program will shield it from the worst of the latest oil price collapse.

Whitecap's debt is a manageable 1.6 times its 2019 EBITDA. That, along with recent cost-cutting measures, will allow it to survive the current harsh operating environment.

The driller has 507 million barrels or proven and probable oil reserves. Those oil reserves, after deducting long-term debt, decommissioning costs, and other non-current financial obligations, have an after-tax net asset value of around $4.78 per share. This is almost four times greater than Whitecap's market value, underscoring why now is the time to buy.

Colombian driller

Frontera Energy (TSX:FEC) has not been as roughly handled by the market compared to many other Canadian upstream oil stocks. This is primarily because of its superior financial position. Frontera finished 2019 with US$331 million of long-term debt, which was a manageable 0.6 times 2019 EBITDA.

Importantly, Frontera ended last year with US$328 million. This, along with it cutting capital spending by 60% in response to sharply weaker oil prices, gives it considerable financial flexibility. Frontera can access international Brent pricing. This gives it a handy financial advantage over those drillers operating solely in North America. Brent trades at an US$8-per-barrel premium to WTI and has proven to be far less volatile.

Frontera is trading at a deep 231% discount to the after-tax net asset value of its oil reserves, underscoring the considerable potential upside available, highlighting why now is the time to buy.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FEC (Frontera Energy Corporation)
2. TSX:SGY (Surge Energy Inc.)
3. TSX:WCP (Whitecap Resources Inc.)

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