2 Top Canadian Oil Stocks to Profit From the Oil Price Rally

Description

Canadian oil stocks are under considerable pressure. The sharp decline in oil has created a once-in-a-decade opportunity to acquire quality Canadian oil stocks at deep discounts to their fair value. There are signs that despite the economic fallout from the coronavirus pandemic, oil prices will rebound. Here are two Canadian TSX-listed oil stocks every investor should consider, regardless of the oil price crash.

Leading South American driller

Frontera (TSX:FEC), which emerged in 2016 from the bankruptcy of **Pacific Exploration**, has lost 56% since the start of 2020. This is slightly less than the international Brent price, which is down by around 60%. This sharp decline highlights that Frontera is attractively valued.

The driller's proven and probable oil reserves of 171 million barrels have an after-tax net asset value of $25.58. This is five times greater Frontera's current market price. This highlights the considerable potential upside available and that the risk/reward equation has tipped firmly in the favour of investors, making now the time to buy.

Importantly, in the current uncertain operating environment, Frontera possesses a solid balance sheet. That included US$328 million of cash at the end of 2019. Frontera's long-term debt and lease liabilities was a moderate US$375 million, which is a very conservative 0.6 times trailing 12-month EBITDA. Such a low debt-to-EBITDA ratio highlights the strength of Frontera's balance sheet and ability to manage its debt load, even in the current difficult operating environment.

For these reasons, Frontera will emerge from the current oil price collapse in solid shape. Its stock will rally substantially when oil finally rebounds, making now the time to buy.

Cheap Colombian driller

Another top Canadian upstream intermediate oil producer to consider is **Gran Tierra** (TSX:GTE)(NYSE:GTE). The driller has a long history of overpromising and underdelivering for investors. This has seen Gran Tierra punished by the market; it's down by a whopping 73% for the year to date. It appears that the market is pricing Gran Tierra for bankruptcy.

That is despite the driller possessing a solid balance sheet. Gran Tierra finished 2019 with asset retirement obligations and long-term debt of US$744 million. This is two times Gran Tierra's trailing 12-month EBIDTA, indicating that its debt will weigh on the company's performance.

Nonetheless, Gran Tierra has taken measures to reduce costs, boost liquidity, and protect its balance sheet during the current harsh operating environment. This includes shuttering uneconomic oil fields and slashing 2020 capital spending by around 60%.

When combined with Gran Tierra's low operating costs and ability to access international Brent pricing, which trades at a premium to WTI, the driller's operations should remain cash flow positive.

Gran Tierra's operating costs are significantly lower than its peers operating North America. When combined with its ability to access international Brent pricing, which is trading at a premium to WTI, Gran Tierra's operations should be cash flow positive.

Gran Tierra is trading at around a 13th of the net asset value of its proven and probable oil reserves. This indicates that there is tremendous upside ahead when oil rallies if Gran Tierra can survive the current environment.

A key risk impacting Gran Tierra is higher geopolitical risk in Colombia. Civil unrest in the form of farmer blockades have forced the driller to shutter production at fields in the Putumayo Basin. That, along with weaker oil, will impact its earnings.

For these reasons, Gran Tierra is a speculative play on higher oil only suitable for high-risk investors.

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