2 Canadian Oil Stocks to Buy Today and Profit in 2021

Description

Oil prices are whipsawing wildly on a mix of good and bad news. After plunging into negative territory last month, the North American West Texas Intermediate benchmark price has spiked to over US$33 per barrel — and there are signs of further gains ahead.

While the impact on Canadian oil stocks has been harsh, now's the time to add quality drillers to your portfolio to profit from higher oil in 2021. Here are two top Canadian upstream oil stocks poised to soar in the second half of 2020 and into 2021.

Leading Colombian oil producer

Frontera (TSX:FEC) has lost a whopping 66% for the year to date, seeing it trade for less than a third of its after-tax net asset value of $11.34 per share. That underscores the considerable potential upside ahead, making now the time to buy.

Frontera also reported some credible first-quarter 2020 results, highlighting the resilience of its operations to the harsh operating environment which currently exists. Oil production fell 10% year over year primarily because of the decision to shutter uneconomic wells and slash capital spending.

Regardless of the harsh operating environment, Frontera reported operating EBITDA of US$44 million and ended the quarter with a solid balance sheet.

Frontera's operations were cash flow positive during the quarter. The driller reported an operating netback of US$16.21 per barrel of crude sold.

At the end of the first quarter, Frontera had total cash of US$361 million and long-term of US$332 million. Frontera's long-term debt is a very manageable, at less than one times trailing 12-month operating EBITDA, further underscoring its financial strength.

The quality and diversity of Frontera's South American oil assets, solid balance sheet and ability to access Brent pricing makes it an extremely attractive oil stock to buy underscored by Frontera trading at a substantial discount to its after-tax net asset value, making now the time to buy.

Top upstream Canadian oil stock

Whitecap (TSX:WCP) was harshly impacted by WTI's plunge into negative territory. Even after rallying strongly since the March 2020 stock market crash and oil price collapse, Whitecap is still down by a whopping 70% since the start of 2020, creating an opportunity to buy one of Canada's top upstream oil explorers and producers at a deep discount to its net asset value.

Based on Whitecap's 2019 end-of-year reserves report, the driller has an after-tax net asset value of $7.07 per share. That's almost eight-times greater than Whitecap's current market price, highlighting the considerable upside available when oil prices eventually rally.

Although Whitecap did report a massive $1 billion first quarter loss, a considerable proportion can be attributed to non-cash impairment charges.

Despite Whitecap moving to shutter loss, making oil operations and sharply reduce capital expenditures, it reported quarterly average oil output of 73,452 barrels daily. Surprisingly, this was 0.6% greater than the upper end of Whitecap's quarterly estimate.

Whitecap finished the quarter in a strong financial position. It reported $500 million of unused credit capacity and net debt totalling just under $1.3 billion.

Whitecap is well within its financial covenants. Net debt is 1.7 times EBITDA, or less than half the four times designated, and EBITDA was 14 times interest, well above the 3.5 times required by its credit facilities.

The driller is focused on preserving its financial position. For this reason, Whitecap slashed its dividend by 50%, cut capital spending and is shuttering uneconomic production, which will cause 2020 average production to fall to 65,000 to 67,000 barrels daily.

Those actions will allow Whitecap to emerge from the current crisis in solid shape and deliver considerable long-term value for investors.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

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