



Deep-Value Opportunity for TFSA Investors

Description

Gran Tierra Energy ([TSX:GTE](#))(NYSE:GTE) is a company focused on [oil and gas exploration](#) and production in Colombia and Ecuador. The company's Colombian properties represents 95% of revenue. Gran Tierra Energy was incorporated in the state of Nevada.

Attractive valuation

The company has a price-to-book ratio of 1.44 and market capitalization of \$436 million. Debt is very high at GTE, as evidenced by a debt-to-equity ratio of 2.58. The company has depressed performance metrics with an operating margin of (22.17)% and a return on equity of (107.41)%. Despite the high debt, GTE has several hidden assets on the balance sheet that are valuable and could be sold to strategic buyers if the company had to raise cash.

Future outlook

Colombia is GTE's primary focus and represents 96% of the company's 2021 capital program with the remainder allocated to exploration activities in Ecuador. About 80% of the company's capital budget is expected to be allocated to development activities and 20% to exploration. Approximately 20% of the company's [development activities](#) included in the 2021 capital program is expected to be directed to facilities. GTE expects the 2021 capital program to be fully funded by cash flows from operations.

Powerful business strategy

GTE's strategy is to profitably grow the company's portfolio of exploration, development, and production opportunities in Colombia and Ecuador in a sustainable manner. The company is taking steps to grow cash flows from existing assets by developing reserves and growing reserves through enhanced oil recovery techniques. GTE has consolidated sufficient exploration opportunities to commence a three- to five-year exploration program, which it expects to fund through the reinvestment of cash flows from operations.

Intelligent acquisitions

GTE has operator interests in 29 blocks in Colombia and three blocks in Ecuador. In 2019, the company paid \$79 million to acquire operatorship in the Surorient Block. This was a great acquisition, as it increased the company's ownership in Surorient Block from 16% to 52% and gave GTE more operational leverage.

The company also signed participation contracts for several blocks located in the Oriente Basin in Ecuador and secured 100% operatorship for these blocks. Further, GTE expects to commence on an exploration drilling program in Ecuador during 2021. The company was awarded four exploration blocks via successful bid rounds in Colombia.

Effective marketing

In 2019, GTE's Putumayo production was sold to Ecopetrol. As per the transaction agreement, the company agreed to deliver oil to Ecopetrol through GTE's transportation facilities, which include pipelines and gathering systems, and through the transportation and logistics assets of a wholly owned subsidiary of Ecopetrol.

The company has also entered ship-and-pay transportation agreements with several other parties. GTE pays a transportation tariff and transportation tax for the transportation of oil and has the right to transport up to 10,000 barrels of oil per day, subject to availability of capacity.

GTE has cleverly structured marketing agreements to ensure that the counterparty is liable for pollution clean-up costs resulting from incidents during transportation. The cost of oil lost during transportation is shared by the parties that ship oil on the pipeline in proportion to the share of total volumes shipped.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. energy

TICKERS GLOBAL

1. NYSEMKT:GTE (Gran Tierra Energy Inc.)
2. TSX:GTE (Gran Tierra Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Energy Stocks
2. Investing

Tags

1. energy

Date

2025/07/02

Date Created

2021/02/22

Author

nikhilwaterloo

default watermark

default watermark