



Bonterra Energy Stock Has Doubled: Is There More Upside in 2022?

Description

It most likely didn't feature on most investors' top [energy stocks](#) to buy lists in January, but **Bonterra Energy** ([TSX:BNE](#)) has been one of the best-performing TSX small-cap energy stocks investors could buy at the onset of 2022.

BNE stock has rallied by 102% so far this year and its returns trounce industry leaders', including **TC Energy's** ([TSX:TRP](#)) 24% year-to-date return and **Suncor Energy** ([TSX:SU](#)) stock's 54% gain during the period. Could there be more upside?

Why Shares of Bonterra Energy Are So Hot

Bonterra Energy is an oil and gas exploration company with low-cost, low-decline assets in the Western Canadian Sedimentary Basin. It produces crude oil, natural gas, and natural gas liquids, and natural gas is a significant component of total production and revenue.

Bonterra's above-average exposure to natural gas production has recently added a significant boost to its earnings and cash flow given the rise in gas prices.

Natural gas prices have soared 114.2% year-to-date, and the commodity's price is up 157% over the past year. What's more, crude oil prices have soared 69% so far this year, and oil is up nearly 90% over the past 12 months.

As a result, Bonterra reported 88% year-over-year growth in gross revenue, to \$91.5 million, for the first quarter of 2022, and a 177% surge in cash flow from operations (CFO) to \$40.9 million.

Most noteworthy, BNE was a highly levered energy stock going into the current commodities supercycle. The company had huge, high-interest debt, along with deeply negative working capital. Thanks to favorable energy economics, the deficit is narrowing.

Bonterra Energy is using its positive cash flow to pay down debt while reinvesting to grow its productivity.

Is There More Upside for Bonterra Stock?

BNE stock is still cheaply valued given a price-earnings (PE) multiple of 2.1 and a price to book value (P/B) multiple of 1.05. For the remainder of this year, Bonterra's revenue, earnings, and cash flow growth profile look encouraging, and valuation multiples could expand still, as they have done already.

The company's first-quarter production averaged 13,287 barrels of oil equivalent (BOE), up 12% year over year as the company drilled more wells and revived previously shut-in assets. The company expects to commission a new, wholly owned gas plant to unlock further natural gas productivity.

Higher oil prices and higher productivity combine to make BNE stock a favorite energy asset to own as the company pares down its debt, reduces leverage risks, and improves profitability metrics.

Speaking of debt, Bonterra's net debt level has declined from \$328.5 million in March 2021 to \$260.7 million in March 2022. Most noteworthy is the bank debt reduction from \$238.9 million to \$138.4 million in just 12 months, which helped the company reduce its quarterly interest costs by 61% year-over-year.

Although Bonterra Energy's high leverage still remains a concern, the company's net debt to cash flow has improved from 2.8 times at the end of 2021 to 2.1 times at the end of March this year. Debt metrics are improving quickly, and BNE stock price may keep rising as liquidity and solvency risks diminish and shareholders' equity increases on the company's balance sheet.

Bonterra's stock could continue to make marginal gains as long as oil prices hold above US\$70 a barrel. The company estimates \$100 million in free funds flow for fiscal 2022 if oil prices average US\$70 per barrel throughout the remainder of the year.

The Western Texas Intermediate (WTI) oil price was US\$114.40 at the time of writing.

Foolish Bottom Line

Bonterra Energy is a highly leveraged play on an oil and gas upside, and the game is still on as long as energy prices remain strong during the remainder of 2022. That said, leverage cuts both ways. Any sudden weakness in energy prices could have an amplified negative impact on Bonterra Energy's stock.

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