The Stock Picker’s Guide to Pacific Rubiales Energy Corp. in 2014

Description

There is little doubt that shareholders of **Pacific Rubiales Energy Corp.** (TSX:PRE) are happy to have 2013 in the rearview mirror — and the first month of 2014 for that matter. During 2013, Pacific Rubiales shares dropped over 20% and the slide did not stop there. So far in 2014, shares have fallen by another 13%.

The poor performance is not without warrant. The company fell short of earnings estimates in the first three quarters of 2013 and management lowered 2014 EBITDA guidance from $4.0 billion to approximately $3.5 billion. So will 2014 be a repeat of what we have seen over the last year or can this dog hunt? Several announcements over the past couple of months may be signaling a better year in 2014.

Guidance

For 2014, management is targeting average net production of 148 to 162 million barrels of oil equivalent per day (Mboe/d) which represents a 15 to 25% increase over 2013 production levels. While this may seem aggressive, the company did exceed its 2013 low-end estimate by approximately 14%, and even exceeded the high-end estimate. In addition, the company’s current production already exceeds the low end of the estimate for 2014.

Management recently announced that actual exploration and development expenditures in 2013 increased by 15% over the original guidance to approximately $2.0 billion. Capital expenditures for 2014 are expected to eclipse the updated 2013 number by another 25% and come in at around $2.5 billion.

As mentioned earlier, EBITDA is currently projected at roughly $3.50 billion for 2014 which will produce the necessary cash to internally fund capex. The company’s exploration program received a big bump in the budget over 2013 and is expected to focus on the heavy oil prospects in Columbia as well as offshore basins of Peru and Brazil. As a result of an aggressive capex program, management expects EBITDA to reach a range of $4.0 billion to $5.0 billion over the next three years.

Acquisitions and dispositions

Late last year, the company completed the $1.60 billion acquisition of Petrominerales Ltd. for $11.00 per share plus assumed debt in an all-cash transaction. Through this accretive acquisition, the company gained access to approximately 6.8 million net acres of exploration and development properties located in Columbia and Peru producing approximately 22 Mbbl/d. The acquisition also included interests in two oil pipelines management deemed strategic to its heavy oil production.

As part of the company's effort reduce debt associated with the Petrominerales acquisition, it sold the 5% interest acquired in the OCENSA pipeline for $385 million, but entered into a 10-year agreement to secure transportation capacity. During the guidance call on January 8, 2014, management stated it agreed to sell a 38% stake in Pacific Midstream for $400 million and is considering an IPO in 2015 of its Pacific Infrastructure unit in which the company holds a 41% working interest.

Foolish bottom line

The worst would seem to be over and management appears focused on increasing shareholder value. The company announced late last year that it had initiated purchases under a previously announced normal course issuer bid allowing it purchase up to approximately 10% of the public float or roughly 31.1 million shares. Last week the company confirmed it had already purchased approximately 4.0 million shares under the plan.

One wildcard in the Pacific Rubiales story is its proprietary Synchronized Thermal Additional Recovery technology referred to as STAR. The technology is designed to positively impact reserves, production and costs. The company recently defended STAR against what it referred to as false media reports regarding the technology and reiterated that STAR has performed in line with expectations. In addition, any benefits achieved from STAR have not been factored into future production forecasts.

Shares of Pacific Rubiales are trading at prices not seen in nearly four years. The low stock price combined with strategic asset sales, debt reduction, share buybacks, an attractive yield and the potential for the STAR technology make Pacific Rubiales worth consideration for the energy portion of your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FEC (Frontera Energy Corporation)

Category

1. Investing

Date
2025/08/25
Date Created
2014/02/05
Author

agray