OGIB Bulletin: 3 Junior Oil Stocks on the Rebound

With the recent rapid decline in oil prices from $100 to $45 the stock market has rapidly re-priced oil producers as though $45 is here to stay…..forever.

The stock prices of junior oil producers haven't just gone down, they have been CRUSHED….

But what happens if it turns out this sub-$50 WTI oil price is a temporary phenomenon? What if we have oil prices back up to the $70 to $75 level by mid-2015?

The answer to that question is obvious….those stocks of oil producers with a high leverage to oil are going to fly up. Many of these companies have had their share prices cut in half. That means there is a chance for a very quick double if the market goes from super bearish on oil to mildly bullish again.

If oil prices do rebound quickly, junior oil producers are the stocks that investors are going to want to own. That is why I've laid out the three premier junior oil producers to own for an upcoming oil price rebound.

These companies have top tier management groups, industry leading netbacks (profit per barrel produced) and rock solid balance sheets.

Not only do these companies offer huge leverage to an oil price rebound, but they are also the best junior oil stocks to own if lower oil prices remain for longer than expected.

Stock #1 – Raging River Exploration

The stock chart on Raging River from inception through August 2014 is a work of art. From a starting point of just over $2 in mid-2012 Raging River had more than quintupled its stock price. The recent oil price driven decline may present a great opportunity on this high quality name.

Management of this company have built and successfully sold 4 companies

Raging River Exploration (TSXV-RRX) combines high growth with high profitability on one of the lowest risk plays in Canada—the Viking, in western Saskatchewan.

From a starting point of 1,000 barrels per day in 2012 Raging River will exit 2014 at nearly 12,500 barrels per day. More importantly, that growth has translated to similar *per share* growth as well.

In its Viking assets Raging River has everything a junior oil producer needs to grow production in a ***self-sustaining*** manner. The Viking offers rapid payout periods (under 1.5 years), low drilling costs ($850k per well) and a large number of repeatable drilling locations (over 2,000 at $85 oil). The shallow location of the formation (600-700 meters) is what allows for low drilling costs.

The most exciting part of Raging River and the Viking is the long term potential for waterflooding which will bring huge quantities of cheap oil to develop reserves.

Raging River's massive land base sets the company up perfectly for waterflooding which the company is just now rolling out in a significant way.

Raging River the Basics:

Trading Symbols: RRX-TSXV	Share Price Today: $7.32
2014 Exit Production Guidance:	12,500boe/d (95% light oil)
2014 Funds Flow Guidance:	$220.0 million
Basic Shares Outstanding:	180.2 million
Market Cap: $1.36 billion	Enterprise Value (EV): $1.45 billion
EV per 2014 cash flow : 6.62 times	Debt to cash flow: 0.4 times

Historic Chart for Cdn:RRX by Stockwatch.com 604.687.1500 - (c) 2015
Thu Jan 22 2015 Op=7.42 Hi=7.52 Lo=7.25 Cl=7.45 Vol=1,107,604 Year hi=11.25 lo=5.58
Cdn:RRX
Downtrend broken, a retest of the low (with higher low) and a breakout about to happen--TEXTBOOK
11.10
10.80
10.50
10.20
9.90
9.60
9.30
9.00
8.70
8.40
8.10
7.80
7.50
7.20
6.90
6.60
6.30
6.00
5.70
Volume
6.0 M
4.0 M
2.0 M
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan
2014
2015

Stock #2 – Spartan Energy Corp

A great management team, great assets, a clean balance sheet and an attractive valuation. If you have the first three you usually don't get the fourth. Thanks to the fall in oil prices and the near panic in stock prices of junior oil producers Spartan Energy offers a rare occasion when you do.

The team at Spartan Energy are serial entrepreneurs. They have built and sold two previous "Spartan" entities in fairly short order creating big returns for themselves and investors. The returns for shareholders who were with them from the beginning were 500% and 269%.

This is Spartan 3.0 and management which owns 12% of the outstanding shares is looking for a hat trick of successes. Today Spartan finds itself with 65% of its production from SE Saskatchewan, 25% from the Viking in West Central Saskatchewan and the remainder from the legacy Detrital oil pool.

Like Raging River, Spartan has built a ***sustainable growth model***. And like Raging River this is possible because Spartan's assets are perfect for a junior growth model. Spartan's main Frobisher/Alida play takes only 7 days to drill a well which keeps costs to barely over $1 million per location. The resulting high netback oil production then allows Spartan to grow its production from internally generated cash flows. That allows Spartan to operate with one of the cleanest balance sheets in the industry.

Spartan Energy the Basics:

Trading Symbols: SPE - TSX	Share Price: $2.93
2014 Exit Guidance:	8,600 boe/day (94% oil)
Basic Shares Outstanding:	262.3 million
Market Cap:	$802.6 million
Enterprise Value (EV):	$892.6 million

EV per estimated 2015 cash flow: 4.95 times (at $90 WTI)
Debt to cash flow: 0.5 times

Historic Chart for Cdn:SPE by Stockwatch.com 604.687.1500 - (c) 2015
Thu Jan 22 2015 Op=2.59 Hi=2.63 Lo=2.47 Cl=2.57 Vol=2,070,501 Year hi=4.99 lo=2.20
Cdn:SPE
4.95
4.80
4.65
4.50
4.35
4.20
4.05
3.90
3.75
3.60
3.45
3.30
3.15
3.00
2.85
2.70
2.55
2.40
2.25
Spartan downtrend not broken yet--so small bets make sense--better momentum though
MACD Histogram
0.015
0
-0.015
Volume
18.0 M
12.0 M
6.0 M
Relative Strength Index
75
50
25
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan
2014
2015

Stock #3 – Whitecap Resources

With oil sub-$50/barrel, investors have a rare chance to buy the best management teams, assets and balance sheets at discounted prices. Whitecap Resources is one of those top quality names.

Whitecap's President and CEO Grant Fagerheim has a long history of building and selling companies such as Cadence Energy and Ketch Resources. He is on record as saying that Whitecap will be the last company that he will build and that he is building it for the long haul.

Fagerheim has built Whitecap to be a buyer when the oil price drops hard—not a seller because of debt. He keeps Whitecap's debt-to-cash flow (D:CF) ratio below 1.5:1 at all times. That and great performing assets allows Whitecap to have a premium valuation—a great currency for acquisitions.

Whitecap has grown production from under 1,500 boe/day in 2010 to an expected 37,500 boe/day in 2015. That is production *per share* growth of 21% per year and more importantly cash flow *per share* growth of 33% per year. The Market pays up for *per share* growth.

Whitecap aims to grow just with cash flow, not debt. That means all cash out—dividends and capital spending—must be covered by cash flow from operations. They are one of the very few energy producers to do that.

Whitecap's light oil assets have high netbacks and low declines, and the team has a laser focus on costs at all times.

Whitecap is one of the very few companies that can both maintain its dividend and production at prices as low as $45 per barrel. And if oil prices stay low, there will be a lot of cheap but quality assets they can acquire.

…more/

Whitecap Resources the Basics:

Trading Symbols:	WCP-TSXV
Share Price:	$11.32
2015 Production Guidance:	37,500 boe/d (76% light oil)
2015 Funds Flow Guidance at $65 WTI:	$465 million
Basic Shares Outstanding:	253 million
Market Cap:	$2.87 billion
Enterprise Value (EV):	$3.67 billion
EV per 2015 cash flow :	7.9 times
Projected 2015 Debt to cash flow:	1.7 times
Current Annual Dividend:	$0.75 per share (6.6% yield)


Historic Chart for Cdn:WCP by Stockwatch.com 604.687.1500 - (c) 2015
Thu Jan 22 2015 Op=11.52 Hi=11.60 Lo=11.06 Cl=11.20 Vol=4,612,414 Year hi=18.71 lo=9.75
Cdn:WCP
WCP momentum is up but
downtrend not 100% broken yet
MACD Histogram
Volume
Relative Strength Index
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan
2014
2015