



Can Lightstream Resources Ever Bounce Back?

Description

Once high flying, intermediate oil producer **Lightstream Resources** (TSX:LTS) has come crashing to Earth with a resounding thud. Over the last year its share price has plunged 40% on the back of growing market concern over its high level of leverage and weakened balance sheet.

In November 2013, Lightstream management initiated a plan to turn the company around through a range of non-core asset sales, reduced capital expenditure and slashing its generous dividend by 50%. But with the company now disappointing the market with less than spectacular fourth quarter and full-year 2013 results its share price continues to slide. So is now the time to invest or should investors ditch a sinking ship?

Fourth-quarter and full-year 2013 results were disappointing

Lightstream reported less than stellar fourth quarter and full-year 2013 results, missing the consensus analyst estimate for net earnings in both periods. For the fourth quarter, Lightstream missed consensus net earnings by \$0.28 per share, reporting net earnings of minus \$0.22 per share. For the full-year 2013, it missed the consensus earnings by \$0.33 per share, reporting annual net earnings of minus \$0.22 per share.

The end result was a net loss of \$45.6 million for the fourth quarter 2013 and \$42.6 million for the full-year, despite 2013 revenue growing 13% in comparison to 2012 and funds flow from operations by 12%. The key cause of the net loss and this significant earnings miss was an impairment charge of \$1.3 billion against Lightstream's Bakken, Cardium and conventional oil assets.

The impairment charge was booked because of management's decision to reduce the expected pace of development of these assets thereby reducing their future production potential and profitability. This is a direct result of Lightstream's decision to reduce capital expenditure as a means of preserving capital and shoring up its balance sheet.

But it does not ultimately reduce the value of what are perceived by oil industry pundits and analysts as high quality assets with solid long-term growth prospects.

Another aspect of these results was the reduction in oil reserves. By the end of 2013, Lightstream's oil

reserves had fallen 3% in comparison to 2012, to just over 200 million barrels of crude. This reduction in reserves was primarily driven by reserves lost as a result of the divestment of non-core assets, oil production and a net negative technical revision.

It is also likely Lightstream's oil reserves will continue to fall marginally over the short-term, because of reduced capital expenditure, a slower pace of development and further asset divestments.

But it's not all bad news for investors, the company's operating netback – a key measure of core profitability – continued to remain high at \$45 per barrel for the quarter and \$50 per barrel for the full year. Furthermore, despite the significant reduction in capital expenditure and the divestment of a number of assets in 2013, Lightstream still achieved its full-year production guidance.

Lightstream's asset divestment program remains on track with around \$112 million in assets either sold or having their sale finalized at this time. With these proceeds earmarked to pay down Lightstream's mountain of debt to a more sustainable two times funds flow from operations, strengthening its balance sheet.

Outlook for 2014 is less than optimistic

Lightstream recently revised its 2014 guidance, reducing oil production to between 43,500 and 45,500 barrels of crude, which is a 2% to 6% drop in comparison to 2013. This will also see 2014 funds flow from operations fall by up to 5% in comparison to 2013, negatively impacting the company's core profitability.

A widening price differential between Canadian light crude (Edmonton par) and its benchmark West Texas Intermediate — resulting from growing U.S. light crude production — will also negatively impact Lightstream's funds flow and ultimately, net earnings.

But it is not all doom and gloom for investors. The quality of the company's underlying assets remains unchanged and with it currently trading at less than a third of the value of its oil reserves per share after royalties and tax, it is an enticing investment.

Furthermore, Lightstream has provided guidance that its dividend will remain unchanged in 2014, giving it a particularly tasty yield of over 8%.

Foolish final thoughts

It will be some time before Lightstream becomes a successful turnaround story. Reduced capital expenditure and asset divestments will continue driving lower oil production and reserves over the short to medium-term. But what is clear is that at this time Lightstream is oversold on the back of overwhelming and increasingly unjustified negative market sentiment.

This sees the company currently trading at a significant discount to the value of its underlying core assets – its oil reserves – while continuing to pay a dividend with a yield of over 8%. That may make it a compelling play for income hungry contrarian Fools.

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Author

mattdsmith

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