Why Enerplus Corp May Hike its Dividend

Description

Shares of **Enerplus Corp** (TSX: ERF)(NYSE: ERF) have lost momentum since touching a 52-week high in mid-June following the company's increase to its contingent resources.

A recent miss in second-quarter earnings per share (EPS) added downside pressure on the stock, as investors seemed to look past some very positive operational updates.

Despite the EPS miss, operational highlights contained in the earnings report showed that the company is still on point in achieving its goal of strengthening its financial position through production growth and cost-cutting.

The company's healthy financial position, record-breaking production levels, and historically low dividend have set the stage for a possible dividend hike.

Dividend history

Enerplus already boasts an attractive dividend, with the current annual yield at 4.4%. The company's monthly dividend has been steady at $0.09 per share since July 2012; the prior monthly dividend was $0.18 per share.

The company halved its dividend back in 2012 to conserve cash and focus on expanding its resources. The dividend is very low. The highest dividend that Enerplus paid was back in 2008, which was $0.4130 per share.

Production highlights

In Enerplus' own words, it "Pays dividends from the cash flow generated from the sale of oil and natural gas production," and that production is skyrocketing. Examining the latest production updates points towards a dividend increase in the future.

Enerplus achieved record production of approximately 104,000 BOE per day in the second-quarter, a 5% increase in production compared the previous quarter, and 15% higher than the comparable quarter.

In addition, liquids production increased 6% compared to the prior quarter. Liquids production is a good thing for oil and natural gas companies because liquids are, generally speaking, more profitable.

On the back of the strong quarterly results, Enerplus increased its full-year guidance for 2014 to 104,000 BOE per day from 100,000. The company also expects liquids production will grow through the remainder of the year.

The increase in production, tangible and projected, followed the company's dramatic 250% increase to its contingent resources, which propelled the stock to a 52-week high. As a result of the revised contingent resource assessment, Enerplus says its estimate of future drilling locations is more than 125% higher.

While the company is being successful and increasing production, it is doing so without breaking the bank. In the recent quarter, the company's capital spending was in line with expectations. Enerplus' spending is also on track for the full year.

When could an increase be in store?

Whether Enerplus will actually boost its dividend is a guessing game, but with improving production and cash flow, and its historically low dividend, there is definitely the opportunity.

It depends if Enerplus' new strategy is to return cash to shareholders via a higher dividend, or reinvest the money back into the company and return it to shareholders through a higher stock value.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:ERF (Enerplus Corporation)
2. TSX:ERF (Enerplus)

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