Enerplus Corp. Is Downgraded: Is This a Signal to Sell?

Description

The rout in the energy patch continues unabated with crude prices remaining at five-year lows. This has forced a number of oil companies to slash their dividends and capital expenditures in order to preserve cash flow and protect their balance sheets. It has also triggered a number of analyst downgrades for a wide range of oil companies, with **Enerplus Corp.** (TSX:ERF)(NYSE:ERF) among the latest. But I believe regardless of this downgrade, Enerplus offers investors a solid opportunity to bet on the long awaited rebound in crude prices.

So what?

Unlike many of its peers and despite significantly lower crude prices, Enerplus has yet to cut its dividend, giving investors a very juicy 9.5% yield. However, while the company is committed to maintaining its dividend, it did flag in its 2015 guidance that the dividend would be reviewed and possibly reduced depending on the severity and duration of the rout in crude prices.

More promising, is despite cutting 2015 capital expenditures to $635 million, a 23% decrease compared to 2014, crude production for the year is expected to grow by a minimum of 5%.

Enerplus has also established a credible strategy for managing the risk of lower crude prices. This now sees 47% of its net crude production for the first half of 2015 hedged at a West Texas Intermediate or WTI price of US$93.58 per barrel and 24% of its second half production hedged at US$93.86 per barrel.

These hedging positions along with growing production will help to protect Enerplus' cash flow allowing it to fund its financial obligations and mitigate the risk of a dividend cut.

Enerplus has a solid balance sheet with a low degree of leverage with net debt currently at 1.3 times cash flow. Impressively, it flagged in its 2015 guidance that its degree of leverage would remain low with the company targeting net debt for 2015 to remain below two times cash flow. It also has a high degree of liquidity with cash on hand of $2.1 million and access to $925 million in debt through an existing credit facility.

This solid balance sheet and low degree of leverage likewise bodes well for Enerplus to ride out the rout in crude prices and continue funding its operations as well as its dividend.

Now what?

This investment does not come without risk, with significant downside if crude prices fall further for a prolonged period, but clearly Enerplus is well positioned to weather the current storm afflicting the energy patch. I believe this makes it is an excellent opportunity to bet on a rebound in crude prices with it currently possessing some very attractive valuation multiples since its share price plunged. These include an enterprise value or EV of five times forecast 2015 EBITDA and 10 times its oil reserves. More importantly, with signs that its dividend will remain intact, patient investors can reap the benefit of a very juicy 9.5% dividend yield while they wait for crude prices to rebound.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/25
Date Created
2015/01/29
Author
mattdsmith