Is it Time to Throw in the Towel on Lightstream Resources Ltd?

Description

Yesterday, crude closed at $44.49 and underscored the reality that these prices may be here to stay for the remainder of 2015 and could creep into 2016. Investors should be extra cautious when considering their exposure to the sector. For some investors this could be a time to buy stocks at a discount, others will see how strong their favorite companies really are, and still others will see stocks that once offered so much promise fall into fiscal oblivion.

Which of these three groups should we place **Lightstream Resources Ltd.** (TSX:LTS) into? It seems hard to fathom that only five years ago Lightstream was trading around the $28.00 mark, and now in 2015 the stock has plummeted to $0.69. Is there a chance for a comeback or is this the end?

Assets vs. debt

For those new to Lightstream Resources, it is a light crude producer with drilling operations in Alberta and Saskatchewan that once offered investors an alternative to Albertan heavy crude. The company claims to have 178 million boe of "proven plus probable" reserves on tap with 1,915 drilling locations. This isn't a huge portfolio compared to many in the oil industry but is still a sizable portfolio that should help the company turn a profit.

The big problem with Lightstream is its net debt, which came in during the last quarter at $1.5 billion. The company has tried hard to pay down this debt, but it may have sacrificed its future in the process, as Lightstream has been forced to sell several parcels of land to competitors.

In 2014, Lightstream sold off $729 million worth of land and royalties to reduce its debt. These asset sales included a $375 million deal with **Crescent Point Energy** for 76 net sections of land in southeastern Saskatchewan. These Bakken assets used to make up 35% of Lightstream's total production and this was the first major step taken by the company to survive.

Death of a dividend

The second drastic action taken by Lightstream was the suspension of its dividend, which once offered investors a yield of 18%. This comes a month after Lightstream cut its dividend by 62%, as a last ditch

attempt to shore up the company's financials. That is how the company has tried to "spin" the news, but in reality this move will only save $35.5 million this year. Instead of helping the books, it has taken the stock from $3.90 to $0.69 and has eroded investor confidence.

Acquisition bait?

Some have speculated that in this current environment Lightstream is quickly becoming "acquisition bait" for a competing energy company with some cash left on the books. But is it worth buying? First let's take a quick look at Lightstream's recent financials. Funds flow from operations fell to $130 million from $179 million the year prior, while oil and gas sales fell to $269 million from $331 million in Q3 2013. Operating netbacks fell by 11% to $48.67 per boe and finally net income fell to $6.9 million from $52 million.

Then we get back to the debt. Lightstream did manage to cut down its debt down to $1.5 billion by Q3 2014 from the $2.1 billion it owed during Q3 2013. Despite all the talk of a potential acquisition, the debt could be the deal breaker. Some have speculated that Crescent Point could be a natural suitor given its favoritism for Saskatchewan oil, but Crescent Point already has $2.58 billion worth of debt on the books.

A more likely outcome could be that Lightstream will continue to sell off its assets piece by piece in order to hold off the inevitable. This sentiment could be reflected in the latest round of price targets given to Lightstream, which range from $0.50 to $1.50. It appears that hope is fading over at Lightstream and investors should consider that "the end is near" unless an unlikely competitor with deep pockets emerges.

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cameronconway