Should You Buy Enerplus Corp After it Cut Its Dividend?

Description

Back in December I said that investors should avoid **Enerplus Corp** (TSX:ERF)(NYSE:ERF) and its monster dividend, which at the time yielded more than 10%. As I saw it, the oil rout was bound to persist, the company's dividend would get cut, and its stock price would get routed as a result.

Until Friday of last week, I was wrong on all counts. The oil market has shown signs of life, with drillers idling rigs in the United States. Until that point, Enerplus had maintained its $0.09 per share monthly dividend and the stock price had performed reasonably well.

Then Enerplus became the latest Canadian energy producer to cut its payout. We take a closer look at what the company did below and whether you should now buy its stock.

Some necessary cuts

In one news release, Enerplus announced a whole string of cuts. First, its dividend was cut by 44% from $0.09 to $0.05 per month. Second, its 2015 capital budget was reduced by another 25% from previous guidance and is now 40% below 2014 levels. Enerplus also announced another $182 million in asset sales. Finally, the company is curtailing natural gas production in the Marcellus Formation, located in Pennsylvania.

On the conference call, Enerplus CEO Ian Dundas said he sees the cuts as "prudent" rather than just "conservative." I agree for a number of reasons.

First of all, it has become very clear that the $0.09 dividend was unsustainable. Just look at what happened last year: Enerplus doled out about $200 million in cash dividends, which was funded by $200 million in asset sales. And this was in a year when oil prices averaged US$93 per barrel. Needless to say, that strategy would not work in 2015.

Second, Enerplus still has a very stretched balance sheet, with over $1 billion in net debt. This number is equal to about 40% of the company's market value, well above some of Enerplus's larger peers. So, the cuts to capital spending are clearly a dose of the right medicine.

Should you buy the stock now?

The investment community clearly disagrees with me; Enerplus shares are down more than 6% (as of this writing). So, has this created an opportunity?

Well, there are a lot of things to like about Enerplus. It has some top-quality assets in North America, with very attractive economics. It also has a roughly 50-50 production split between oil and gas, which provides some protection in case one of those commodities plunges. And even after the cut on Friday, Enerplus's dividend still yields nearly 5%.

Not so fast

That said, you shouldn’t be jumping at Enerplus shares. Despite the stock price plunge on Monday, the shares are still more expensive than they were in December. The balance sheet still makes me nervous, even after the cuts. I’m worried about the company’s ability to prosper in this environment. And finally, the oil rout could last a lot longer than anyone expects.

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