



3 Reasons Why Arc Resources Ltd. Is the Top Energy Stock to Buy Today

Description

Arc Resources Ltd. ([TSX:ARX](#)), one of the largest conventional oil and gas companies in Canada, has been one of the market's most disappointing stocks in 2015, but it has the potential to be one of the top performers from this point forward. Let's take a look at three reasons why this could happen and why you should consider establishing a long-term position today.

1. Record production has driven its earnings and revenues higher

On February 11 Arc released very strong fourth-quarter earnings results, and its stock has responded by rising over 1% in the weeks since. Here's a breakdown of 12 of the most notable statistics from the report compared to the year-ago period:

1. Net income increased 736% to \$113.7 million
2. Earnings per share increased 800% to \$0.36
3. Revenue increased 7.1% to \$391.4 million
4. Commodity sales increased 6.8% to \$454.1 million
5. Total production increased 17% to a record 117,986 barrels of oil equivalents per day
6. Production of crude oil increased 5.3% to 37,442 barrels per day
7. Production of natural gas liquids increased 77% to 5,075 barrels per day
8. Production of condensate increased 33.6% to 3,448 barrels per day
9. Production of natural gas increased 20.2% to 432.1 million cubic feet per day
10. Funds from operations increased 5.8% to \$251.7 million
11. Operating income increased 29% to \$64.5 million
12. Total capital expenditures increased 18.2% to \$264.9 million

2. Its stock trades at inexpensive current and forward valuations

At today's levels Arc's stock trades at just 20.3 times fiscal 2014's earnings per share of \$1.20 and only 18.9 times fiscal 2015's estimated earnings per share of \$1.29, both of which are very inexpensive compared to its five-year average price-to-earnings multiple of 136 and its long-term growth rate.

I think Arc's stock could consistently command a fair multiple of at least 25, which would place its

shares upwards of \$32 by the conclusion of fiscal 2015, representing upside of more than 31% from current levels, and this does not included reinvested dividends.

3. It has a very high 4.9% dividend yield

Arc pays a monthly dividend of \$0.10 per share, or \$1.20 per share annually, giving its stock a very high 4.9% yield at current levels. There has been recent speculation that the continued weakness in commodity prices would force oil and gas producers to reduce their dividends, but Arc achieved higher revenues and profits in its most recent quarter and fiscal year, so there is no doubt in my mind that its dividend is safe.

Should you invest in Arc Resources today?

Arc Resources represents one of the best investment opportunities in the energy sector today. Record production has driven its earnings and revenues higher; its stock trades at inexpensive valuations; and it has a very high and safe 4.9% dividend yield. All Foolish investors should take a closer look and strongly consider beginning to scale in to long-term positions.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ARX (ARC Resources Ltd.)

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Date

2025/08/21

Date Created

2015/04/16

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