



Should You Buy, Sell, or Hold Arc Resources Ltd. Today?

Description

Arc Resources Ltd. ([TSX:ARX](#)), one of the largest conventional oil and gas companies in Canada, released first-quarter earnings after the market closed on April 29, and its stock has responded by falling over 2.5%. Let's take a thorough look at the quarterly results to determine if we should consider using this weakness as a long-term buying opportunity.

Lower commodity prices driving earnings and revenues down

Here's a summary of Arc's first-quarter earnings results compared with its results in the same period a year ago.

Metric	Q1 2015	Q1 2014
Earnings Per Share	(\$0.01)	\$0.09
Revenue	\$276.2 million	\$471.4 million

Source: Arc Resources Ltd.

In the first quarter of fiscal 2015 Arc reported a net loss of \$1.7 million, or \$0.01 per share, compared with a net profit of \$29.4 million, or \$0.09 per share, in the same quarter a year ago, as its revenue decreased 41.4% to \$276.2 million.

These very weak results can be primarily attributed to lower commodity prices, including the company's average realized price of crude oil plummeting 49% to \$48.73 per barrel, which led to its total commodity sales decreasing 44.4% to \$306.6 million.

Here's a quick breakdown of 12 other notable statistics from the report compared with the year-ago period:

1. Total production increased 13.9% to a record 120,354 barrels of oil equivalents per day
2. Production of crude oil decreased 4.3% to 35,851 barrels per day
3. Production of condensate increased 24.4% to 3,591 barrels per day

4. Production of natural gas increased 24.4% to 459.6 million cubic feet per day
5. Production of natural gas liquids increased 15.3% to 4,314 barrels per day
6. Average realized price of condensate decreased 50.9% to \$49.12 per barrel
7. Average realized price of natural gas decreased 45.5% to \$3.05 per thousand cubic feet
8. Average realized price of natural gas liquids decreased 66.9% to \$16.07 per barrel
9. Funds from operations decreased 34.5% to \$191.5 million
10. Cash flow from operating activities decreased 43.8% to \$145.7 million
11. Net debt outstanding decreased 13.3% to \$950.5 million
12. Ended the quarter with \$190.6 million in cash and cash equivalents, an increase of 2,584.5% from the beginning of the quarter

Arc also announced that it will be maintaining its monthly dividend of \$0.10 per share for the month of April. It will be paid out on May 15, and it has conditionally declared a monthly dividend of \$0.10 per share for May, June, and July, with those payments expected to occur on June 15, July 15, and August 17, respectively.

Should Arc Resources be added to your portfolio today?

Even though I think the post-earnings weakness in Arc's stock is warranted, I also think it represents an intriguing long-term buying opportunity. I think commodity prices will recover in the next 12 months and it has a very high dividend yield.

First, I think crude oil will move back towards about \$75 per barrel, and this will lead Arc to higher profitability and sales. This will also lead to investors piling back in to stocks like Arc.

Second, 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 today's levels, and this will pay investors to wait for commodity prices to recover.

With all of the information provided above in mind, I think Foolish investors should strongly consider using the post-earnings weakness in Arc Resource's stock to begin scaling in to long-term positions.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:ARX (ARC Resources Ltd.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/07/20

Date Created

2015/04/30

Author

jsolitro

default watermark

default watermark