



Should You Buy Whitecap Resources Inc. for its 5.3% Yield Today?

Description

Whitecap Resources Inc. ([TSX:WCP](#)), one of the largest producers of crude oil and natural gas in Canada, announced first-quarter earnings results after the market closed on May 6, and its stock has responded by making a slight move to the downside. The company's stock now sits more than 24% below its 52-week high, so let's take a closer look at the results to determine if we should consider beginning to scale in to long-term positions, or if we should continue to avoid it.

Lower commodity prices drive earnings and revenues down

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

Metric	Q1 2015	Q1 2014
Earnings Per Share	(\$0.12)	\$0.02
Petroleum & Natural Gas Sales	\$132.64 million	\$178.12 million
Revenue, Net of Royalties	\$114.87 million	\$154.72 million

Source: *Whitecap Resources Inc.*

In the first quarter of fiscal 2015, Whitecap reported a net loss of \$29.4 million, or \$0.12 per share, compared with a net profit of \$4.54 million, or \$0.02 per share, in the same quarter a year ago, as its petroleum and natural gas sales decreased 25.5% to \$132.64 million and its total revenue, net of royalties, decreased 25.8% to \$114.87 million.

These very weak results can be attributed to the steep decline in commodity prices in the last 12 months, which led to the company's average realized price of crude oil decreasing 48.7% to \$48.74 per barrel; its average realized price of natural gas liquids decreasing 70.6% to \$17.99 per barrel; and its average realized price of natural gas decreasing 48.6% to \$2.93 per thousand cubic feet.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago

period:

1. Total production increased 44.7% to 38,351 barrels of oil equivalents per day
2. Production of crude oil increased 53.9% to 25,623 barrels per day
3. Production of natural gas liquids increased 22.1% to 2,689 barrels per day
4. Production of natural gas increased 31.2% to 60.24 million cubic feet per day
5. Funds from operations increased 8.9% to \$109.93 million
6. Funds from operations decreased 14% to \$0.43 per diluted share
7. Total operating expenses increased 54.7% to \$151.9 million
8. Development capital expenditures decreased 41.8% to \$76.02 million
9. Net debt outstanding increased 84.2% to \$867.15 million
10. Weighted average number of diluted shares outstanding increased 28.3% to 256.6 million

Should you be a buyer of Whitecap Resources today?

I think the post-earnings weakness in Whitecap's stock is warranted, but I also think it has led to a long-term buying opportunity.

First, I think commodity prices will continue to recover in the next 12 months, with the price of crude oil moving back towards about \$75 per barrel, which will lead to higher sales and profitability for Whitecap.

Second, Whitecap's stock trades at just 33.8 times fiscal 2015's estimated earnings per share of \$0.42 and only 28.4 times fiscal 2016's estimated earnings per share of \$0.50, both of which are inexpensive compared with its long-term growth potential. Also, as commodity prices recover, I think these estimates will move significantly higher.

Third, Whitecap pays a monthly dividend of \$0.0625 per share, or \$0.75 per share annually, giving its stock a very high 5.3% yield and making it one of the top dividend plays in the market today.

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

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:WCP (Whitecap Resources Inc.)

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