Should You Buy Cardinal Energy Ltd. and its 5.5% Yield Today?

Description

Cardinal Energy Ltd. (TSX:CJ), one of the fastest growing junior oil and natural gas producers in Canada, announced first-quarter earnings results after the market closed on May 11, and its stock has responded by making a slight move to the upside in the trading sessions since. Let's take a closer look at the results to determine if we should consider initiating long-term positions today, or if we should look elsewhere for an investment instead.

Lower commodity prices lead to weak results

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

Metric	Q1 2015	Q1 2014
Earnings Per Share	($0.22)	$0.02
Petroleum & Natural Gas Sales	$38.41 million	$41.29 million

Source: Cardinal Energy Ltd.

In the first quarter of fiscal 2015, Cardinal reported a net loss of $12.85 million, or $0.22 per share, compared with a net profit of $897,000, or $0.02 per share, in the same quarter a year ago, as its petroleum and natural gas sales decreased 7% to $38.41 million. These very weak results can be attributed to the steep decline in commodity prices over the last year, which led to the company's average realized selling price per barrel of oil equivalent decreasing 47.4% to $38.72.

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

1. Total production increased 76.8% to 11,023 barrels of oil equivalents per day
2. Production of crude oil increased 84.7% to 10,155 barrels per day
3. Production of natural gas liquids increased 337.5% to 70 barrels per day
4. Production of natural gas increased 10.4% to 4.79 million cubic feet per day
5. Operating expenses decreased 9.9% to $23.20 per barrel of oil equivalent

6. Cash flow from operating activities increased 88.7% to $23.65 million
7. Cash flow from operations increased 14.1% to $21.94 million
8. Cash flow from operations decreased 25.5% to $0.38 per diluted share

Does Cardinal Energy represent a long-term opportunity today?

It was a fairly weak quarter for Cardinal Energy, so I do not think the slight post-earnings pop in its stock is warranted. However, I do think it represents an attractive long-term investment opportunity because I think commodity prices will recover over the next year and because it has a very high dividend yield.

First, I think commodity prices will recover over the next 52 weeks, with the price of crude oil heading back towards about $75 per barrel, and this will lead to higher sales and profitability for Cardinal, especially with its large increase in production.

Second, Cardinal pays a monthly dividend of $0.07 per share, or $0.84 per share annually, giving its stock a 5.5% yield at today’s levels. This high yield will provide investors with a stream of income while they wait for commodity prices to recover, and while also providing protection to the downside in times of market volatility.

With all of the information provided above in mind, I think Cardinal Energy represents a great long-term investment opportunity today. Foolish investors should take a closer look and consider beginning to scale in to positions.

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