Enerplus Corp. Is Unfazed by Oil Prices

Description

The significant drop in the price of oil over the past year forced oil companies to cut capital spending. **Enerplus Corp.** (TSX:ERF)(NYSE:ERF) wasn't immune as it cut its spending twice over the past year, with the second cut lowering its planned spending to $480 million, which is 40% lower than last year's level. However, with oil companies cutting spending so dramatically, oilfield service companies have begun to reduce their costs, which is having a notable impact on the overall cost to complete new wells. As a result, well costs are compelling enough that Enerplus is now re-accelerating its capital spending and boosting production.

Reversing the decline

Enerplus is now planning to spend an additional $60 million in 2015 to accelerate the completion of eight wells in North Dakota's Bakken Shale. As a result of those additional wells Enerplus expects its production to be higher in 2015 than its previous guidance. That guidance had been 93,000-100,000 barrels of oil equivalent per day, but now is expected to be 97,000-103,000 barrels of oil equivalent per day.

As a result of that higher production, Enerplus expects to also generate increased funds flow and improve its leverage metrics over the next two years. What's really interesting is that the improvement in the leverage metrics is occurring despite the fact that Enerplus is putting the entire $60 million on its bank facility. However, the company expects that investment to pay off rather quickly due to really compelling well economics.

Great returns at current oil prices

In fact, the main reason why Enerplus is accelerating the completion of these wells is because of the compelling well economics. The company expects to earn a 60% rate of return on the money spent to drill these wells. Those returns are at a flat $60 oil price for the next two years, so Enerplus isn't accelerating its spending with the hopes of higher oil prices in the future. Instead, the wells are simply expected to drive robust returns at the current price because the well costs have fallen enough that the company can earn a strong return amid weak oil prices.

In addition to falling costs, Enerplus' returns are so strong due to the fact that its acreage position is really in the core of the Bakken play. As a result, the wells it expects to drill should produce more than one million barrels of oil equivalent over their lifetime. That's key because wells in the marginal parts of that play will only produce 700,000 barrels of oil equivalent or less, and that weaker production has a big impact on returns as those less robust wells earn just a meager 5% return.

Investor takeaway

While weak oil prices are causing most oil companies to continue to be cautious, Enerplus is unfazed as it's accelerating its spending. The reason why it is confident enough to accelerate its spending is because the wells it will drill are expected to be really prodigious oil wells. As a result, the company expects to earn very compelling returns, even if oil prices stay flat.

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