



Is the Earnings-Induced Rally in Arc Resources Ltd.'s Shares Sustainable?

Description

Arc Resources Ltd. ([TSX:ARX](#)), one of the largest producers of conventional oil and natural gas in Canada, released second-quarter earnings results after the market closed on July 29, and its stock has responded by rising over 8%. Let's take a closer look at the results to determine if we should consider buying in to this rally, or if we should wait for it to subside.

The results that ignited the rally

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

Metric	Q2 2015	Q2 2014
Earnings Per Share	(\$0.15)	\$0.47
Revenue, Net of Royalties	\$296.7 million	\$486.6 million

Source: Arc Resources Ltd.

In the second quarter of fiscal 2015, Arc Resources reported a net loss of \$51 million, or \$0.15 per share, compared to a net profit of \$147.4 million, or \$0.47 per share, in the same period a year ago, as its revenue, net of royalties, decreased 39% to \$296.7 million.

These weak results can be attributed to the sharp decline in commodity prices over the last 12 months, which led to the company's average realized price of crude oil decreasing 36.9% to \$64.49 per barrel, its average realized price of natural gas liquids decreasing 75.9% to \$9.53 per barrel, and its average realized price of natural gas decreasing 42.3% to \$2.88 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 decreased 0.2% to 109,900 barrels of oil equivalents per day
2. Production of crude oil decreased 9.5% to 31,958 barrels per day

3. Production of condensate decreased 29.7% to 3,139 barrels per day
4. Production of natural gas increased 7.3% to 426 million cubic feet per day
5. Production of natural gas liquids decreased 9.2% to 4,179 barrels per day
6. Average realized price of condensate decreased 37.5% to \$64.84 per barrel
7. Funds from operations decreased 30.3% to \$206.3 million
8. Cash flow from operating activities decreased 39.7% to \$202.1 million
9. Operating netback after hedging decreased 30.1% to \$24.37 per barrel of oil equivalent
10. Net debt outstanding decreased 17.3% to \$878.1 million

Arc also announced that it will be maintaining its monthly dividend of \$0.10 for the month of July, and it will be paid out on August 17. Arc has conditionally declared a monthly dividend of \$0.10 per share for August, September, and October, with those payments expected to occur on September 15, October 15, and November 16, respectively.

What should you do with Arc's stock today?

The second quarter was very weak for Arc Resources, so I do not think the post-earnings pop in its stock was warranted. I also think the company will face continued weakness in the second half of the year because oil and natural gas prices remain under pressure. The only legitimate reason for owning the stock today is its 5.8% dividend yield, but I do not think it is high enough to offset the possible losses if the stock retracts from these levels.

With all of the information provided above in mind, I think Foolish investors should avoid buying Arc Resources today, and only revisit the idea of an investment when its shares come back to normal levels.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ARX (ARC Resources Ltd.)

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