Seven Generations Energy Ltd. Takes a Contrarian Approach to Weak Oil Prices

Description

It's a risky move that has some industry watchers worried, but **Seven Generations Energy Ltd.** (TSX:VII) has opted to sharply increase oil and natural gas production in an effort to take advantage of continuing weak crude oil prices.

In the second quarter, the company increased oil production 126% to 54,219 barrels of oil equivalent per day (boe/d) compared with the same period last year. Second-quarter oil and condensate production increased 123% to 20,702 barrels per day compared with a year earlier, while natural gas production levels jumped 117%. The higher production levels helped the energy company increase its cash flow to $126.8 million, up 92% from the second quarter of 2014.

"With the ongoing oversupply of natural gas across North America, we focus intensely on being among the continent's lowest-cost developers," said CEO Pat Carlson in the company's earnings report. "Maintaining a margin throughout commodity price fluctuations has always driven and continues to drive our long-term growth strategy. When we combine our low-cost supply growth with our long-term, firm transportation and our fractionation capacity in the U.S. Midwest, we maintain our highly competitive position and can continue to grow production and funds from operations."

Carlson says the company believes that oversupply drives down prices, but not demand. "Despite the current weakness in continental energy prices, developers generating the lowest-cost supply will continue to earn competitive returns for investors over the long term."

Despite cutting spending by $300 million earlier this year, Seven Generations has opted to maintain its 2015 capital budget of $1.35 billion for its Kakwa River Montney natural gas project in Alberta, even as competitors continue to reduce spending and shed jobs. To maintain that financing, Seven Generations has issued $425 million in senior debt and has raised its revolving credit facility to $650 million.

The changes haven't helped the company's profits, at least so far. In the second quarter Seven Generations lost $22 million, or $0.09 per share, compared with a year-earlier profit of $44 million, or $0.20 per share. Excluding items, earnings were $28 million, or $0.11 cents a share, a penny above analyst predictions of $0.10 per share.

The question is, can Seven Generations spend its way out of trouble? Four of seven analysts covering the stock give it a "buy" rating, with an average price target of $23.58. Still, you'll need a strong disposition to buy Seven Generations shares, which have declined 20% year-to-date. However attractive the contrarian approach might be, it remains a major risk that investors should consider carefully.

CATEGORY

1. Energy Stocks
2. Investing

Category

1. Energy Stocks
2. Investing

Date
2025/07/02
Date Created
2015/08/11
Author
dwatt