



Enerplus Corp.: Is This the Top Turnaround Play in the Energy Sector?

Description

Enerplus Corp. ([TSX:ERF](#))([NYSE:ERF](#)), one of the leading producers of crude oil and natural gas in North America, announced second-quarter earnings results on the morning of August 7, and its stock has responded by rising over 9.5% in the trading sessions since. Even after this large pop, the company's stock still sits more than 65% below its 52-week high of \$25.07 reached back in August 2014, so let's take a closer look at the results to determine if this could be the start of a sustained rally higher.

The results that ignited the rally

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

Metric	Q2 2015	Q2 2014
Earnings Per Share	(\$1.52)	\$0.20
Oil & Natural Gas Sales, Net of Royalties	\$251.73 million	\$414.93 million

Source: Enerplus Corp.

In the first quarter of fiscal 2015, Enerplus reported a net loss of \$312.54 million, or \$1.52 per share, compared to a net profit of \$39.96 million, or \$0.20 per share, in the same period a year ago, as its oil and natural gas sales, net of royalties, decreased 39.3% to \$251.7 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 selling price of crude oil decreasing 39.6% to \$58.26 per barrel, its average selling price of natural gas liquids decreasing 59.7% to \$20.88 per barrel, and its average realized selling price of natural gas decreasing 49.6% to \$2.09 per thousand cubic feet, as well as a non-cash ceiling test impairment of \$497.2 million.

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

1. Average daily production increased 3.3% to 107,429 barrels of oil equivalents per day
2. Production of crude oil increased 3.2% to 41,122 barrels per day
3. Production of natural gas liquids increased 41.5% to 5,145 barrels per day
4. Production of natural gas increased 1.1% to 366.97 million cubic feet per day
5. Total oil and natural gas sales decreased 40.9% to \$298.43 million
6. Funds flow from operations decreased 24.8% to \$160.44 million
7. Cash flow from operating activities decreased 40.9% to \$135.1 million
8. Debt outstanding, net of cash, increased 5% to \$1.12 billion

Enerplus also announced an increase to its annual production guidance as a result of its "continued operational outperformance," and a decrease to its operating cost guidance as a result of its "continued focus on cost control."

The company now anticipates annual production of both liquids and gas in the range of 100,000-104,000 barrels of oil equivalents per day, up from its previous range of 97,000-103,000 barrels of oil equivalents per day. They also anticipate operating costs of \$9.25 per barrel of oil equivalent, which is down from its previous guidance of \$9.75 per barrel of oil equivalent.

Could the rally in Enerplus shares continue?

It was a very rough quarter for Enerplus in terms of sales and profitability, but its increased production and decreased expenses set it up for success in the future, so I think its stock has responded correctly by moving higher. I also think the stock could continue higher from here because I think commodity prices have bottomed, and because the stock has a dividend yield over 6%, which will continue to make it one of the top dividend plays in the industry.

First, I think commodity prices have bottomed and will slowly recover over the next 12 months, with the price of crude oil heading back towards about US\$65 per barrel and the price of natural gas heading back towards about US\$3.50 per thousand cubic feet, and this will lead to increased sales for Enerplus and maybe even a return to profitability in fiscal 2016.

Second, Enerplus pays a monthly dividend of \$0.05 per share, or \$0.60 per share annually, which gives its stock a 6.8% yield at today's levels. This 6.8% yield will not only pay investors to wait for the rebound in commodity prices, but it will also provide protection to the downside in times of market volatility.

With all of the information provided above in mind, I think Enerplus is one of the top turnaround plays in the energy sector today. Foolish investors should take a closer look and consider beginning to scale in to positions over the next couple of trading sessions.

CATEGORY

1. Energy Stocks
2. Investing

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Author

jsolitro

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