



Arc Resources Ltd. Has Fallen Over 9% Since its Q3 Release: Should You Buy it?

Description

Arc Resources Ltd. ([TSX:ARX](#)), one of the largest producers of conventional oil and natural gas in Canada, released third-quarter earnings results after the market closed on November 4, and its stock has responded by falling over 9% in the trading sessions since.

The stock now sits more than 39% below its 52-week high of \$29.85 reached back on November 21, 2014, so let's take a closer look at the results to determine if now is finally the time to buy or if it could continue lower from here.

Lower commodity prices lead to very weak results

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

Metric	Q3 2015	Q3 2014
Earnings Per Share	(\$0.69)	\$0.28
Revenue, Net of Royalties	\$386.5 million	\$519.1 million

Source: Arc Resources Ltd.

In the third quarter of fiscal 2015, Arc Resources reported a net loss of \$235 million, or \$0.69 per share, compared to a net profit of \$90.3 million, or \$0.28 per share, in the same quarter a year ago, as its revenues, net of royalties, decreased 25.5% year over year to \$386.5 million.

These declines can be attributed to the sharp drop in commodity prices, which led to the company's average realized selling price of crude oil decreasing 43.8% to \$52.43 per barrel, its average realized selling price of condensate decreasing 44.5% to \$53 per barrel, its average realized selling price of natural gas liquids decreasing 85.7% to \$5.68 per barrel, and its average realized selling price of natural gas decreasing 32.1% to \$3.03 per thousand cubic feet.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago

period:

1. Gain on risk management contracts increased 125.5% to \$132.6 million
2. Total production decreased 7.2% to 107,261 barrels of oil equivalents per day
3. Production of crude oil decreased 18% to 29,397 barrels per day
4. Production of condensate decreased 13% to 3,361 barrels per day
5. Production of natural gas increased 0.1% to 425.1 million cubic feet per day
6. Production of natural gas liquids decreased 27.7% to 3,653 barrels per day
7. Average realized selling price decreased 43.9% to \$28.22 per barrel of oil equivalent
8. Funds from operations decreased 38.5% to \$174.9 million
9. Operating netback after hedging decreased 36.2% to \$20.03 per barrel of oil equivalent
10. Net debt outstanding decreased 14.9% to \$981.1 million

Arc also made two important announcements.

First, it announced a \$550 million capital program for 2016, aimed at strengthening its balance sheet and creating long-term value by developing its “low-cost, high-value” Montney assets.

Second, it announced that it has conditionally declared a monthly dividend of \$0.10 per share for November, December, and January, with those payments expected to occur on December 15, January 15, and February 16 to shareholders of record at the close of business on November 26, December 29, and January 27, respectively.

Should Arc Resources be on your long-term buy list?

It was another very weak quarter for Arc Resources, so I think its stock has responded correctly by moving lower. I also think the stock could continue lower from here and should be avoided by all investors today for three primary reasons.

First, commodity prices remain at very low levels, which will likely lead to another weak performance in the fourth quarter. Second, I do not think the company’s \$550 million capital program will be enough to get it back to profitability in 2016. Third, I think there are much better investment options in this and other industries today.

With all of the information provided above in mind, I think Foolish investors should avoid investing in Arc Resources today and simply monitor it going forward.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ARX (ARC Resources Ltd.)

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