3 Big Changes Are Coming to Enerplus Corp.

Description

Change can be tough, especially when those changes have a perceived negative impact. That said, some changes are necessary, even if the impact initially hurts. In a sense, that's the context behind two of the three major changes that **Enerplus Corp.** (TSX:ERF)(NYSE:ERF) announced along with its third-quarter results. However, while initially tough to swallow, both changes are necessary in the context of the current environment.

The 2015 guidance is changing

I hinted in the intro that one of the changes was actually a good one, and that's certainly the case. Enerplus is increasing its full-year production guidance while simultaneously decreasing its capex budget. In other words, the company now expects to produce more oil for less money than originally anticipated.

This is a pretty big change, with production for the full-year expected to average 106,000 barrels of oil equivalent per day, or BOE/d. This is not only well above its previous guidance of 100,000-104,000 BOE/d, but it assumes the sale of some properties that are expected to close in the current quarter. Further, the company is achieving this result despite bringing its capex spending down from its original budget of $510-540 million. More oil and gas for less money is what's needed in the current price environment.

The 2016 outlook is a dramatic change from 2015

One of the hallmarks of Enerplus is that it's a company that grows its production, having averaged 11% compound annual production growth from 2011 through last year. While that rate slowed this year, the company will still produce at a higher rate than it did in 2014. However, that will change in 2016, assuming commodity prices remain weak.

Enerplus's initial outlook for 2016 was to keep its production roughly flat compared with 2015 in a range of 100,000-105,000 BOE/d. However, what's worth noting is the fact that the company only intends to spend $350 million, or 30% less, to achieve that goal.

Further, that budget is based on a $50 oil price and $3 for natural gas. Should either price increase in 2015, or if Enerplus achieves further capital efficiencies and/or better well results, it is possible that spending could be less and production could be higher than this guidance.

The dividend rate is changing

The final change, and the one that has the most initial direct impact on investors, is the company's dividend. The payout is being reduced from $0.05 per share each month to $0.03 per share. Of course, that's lower than the $0.09 per share rate that Enerplus started the year with.

One of the positives of the dividend reduction is the fact that it will enable Enerplus to be self-funding in 2016. This means that cash flow will match cash outflows for capex plus dividends, which will keep the company's debt level from rising. That puts Enerplus's business on a much more sustainable level going forward should oil prices continue to remain weak.

Investor takeaway

Enerplus is making a number of changes, some of which might appear negative at first, but they are all long-term positives. The key is the fact that Enerplus has now reached the point of sustainability whereby its cash outflows for capex and dividends are able to meet its inflows, even though commodity prices are weak. It really puts the company in the position to survive weak prices, so that it can thrive when prices rebound.

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