The Cuts Keep Coming at Enerplus Corp.

Description

The downturn in the energy industry has clearly gone from bad to worse. A clear sign of that shift is the fact that a growing list of energy companies no longer have the financial capacity maintain their current production rates. We see that now happening to **Enerplus Corp.** (TSX:ERF)(NYSE:ERF), which is reducing its budget again–this time below the point needed to maintain its production in 2016.

Playing the hand that's been dealt

With the price of crude oil continuing to remain weak, Enerplus is being forced to take additional actions to meet the challenges that come with a low $30 oil price. The biggest challenge is the impact that the oil price has on funds flow, which has fallen from an average of $22.82 to $12.68 per barrel of oil equivalent (BOE) over the past year. That drop is forcing the company to reduce its cash outflows, which is why its dividend and its capital budget continue to drop.

Enerplus's dividend has steadily fallen over the past year in response to weakening oil prices.

At this time last year the company was paying $0.09 per share each month, but that was cut to $0.05 per share in March, and then to $0.03 per share in November before its most recent cut to $0.01 per share. In some ways it's a surprise to see the company even pay a dividend at all, especially since so many of its peers, including **Penn West Petroleum** and **Pengrowth Energy**, have already suspended their dividends in response to the current environment.

Enerplus is also reducing its capital budget. Last year the company spent $493 million to develop its oil and gas properties in North America, enabling the company to produce 106,525 BOE/d. However, in response to the continued weakness of oil prices, it has dropped its 2016 spending plan from its initial guidance of $350 million down to just $200 million, or 60% less than it spent last year.

One step forward and two steps back

At that spending level, Enerplus expects its production to range between 90,000 and 94,000 BOE/d in 2016. At the mid-point that's 7% less than it produced in 2015 after adjusting for 8,000 BOE/d in asset sales. In other words, Enerplus has quickly gone from a company that was growing its production to one that no longer plans to even maintain its production rate.

That being said, this isn’t a problem that’s unique to Enerplus. Penn West Petroleum and Pengrowth, for example, have seen their cash flow dry up to such an extent that both cut their 2016 capex spending plan by 90% over 2015 levels. Penn West Petroleum production is expected to drop 19% year over year, while Pengrowth’s is expected to drop 16% from last year.

In fact, times are so tough right now that both companies are being forced to shut in production that’s no longer economic to produce, which is further impacting expected 2016 production rates.

Investor takeaway

Conditions in the oil sector have gotten so bad that many oil companies just don’t have the money to even keep production flowing at current rates. Instead, they’re being forced to cut back investments well past maintenance levels and are now clearly in survival mode.

That said, Enerplus is at least surviving better than some of its peers because it is still paying a token dividend and its production isn’t projected to fall as much as its peers. However, if conditions continue to worsen, we could see even more cuts down the road from Enerplus.

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