Whitecap Resources Inc. Is Quietly Staging a Comeback

Description

Despite shares falling nearly 50% over the last 12 months, **Whitecap Resources Inc.** (TSX:WCP) has quietly positioned itself to capitalize on an eventual industry rebound. Both production and reserves have grown every year since 2010 and are set to continue that streak this year. It entered hedging programs that have paid off handsomely with low selling prices; this year it anticipates $76.2 million in hedging gains. It has also driven operating costs down 30-60% across all of its projects.

With low debt levels, a sustainable 6% dividend, growing production, falling costs, and quality assets, Whitecap shares have significant upside if oil prices improve.

How much upside?

With oil prices hovering around US$40 a barrel, Whitecap should generate roughly $35 million in free funds flow. That's not bad considering that's after $149 million in dividend obligations. Even if oil moves down to US$35 a barrel, Whitecap should be cash flow neutral.

As you can see below, it wouldn't take much for the company's cash generation to double, triple, or more. Whitecap's management team estimates US$35 oil in Q2, US$40 in Q3, and US$45 in Q4. By the end of the year, free funds flow might double. With oil at US$55, cash generation could jump by almost 400%.

Image not found or type unknown
Image Source: Whitecap Resource Investor Presentation
Image Source: Whitecap Resource Investor Presentation

The dividend is safe while you wait

In February, Whitecap reduced its dividend to $0.45 annually, resulting in a 6% yield. The move saves $91 million, lowering the payout ratio to roughly 85%. Management has been insistent on keeping the payout ratio below 100%, so while it could have serviced the higher dividend by adding debt, the company doubled down on its historically conservative approach.

Fortunately, the cut makes the dividend much more sustainable, all while maintaining a relatively high yield. If oil prices temporarily dip again, the company can always lean on its $455 million in remaining credit facilities. The market has also been more than willing to meet any additional financing needs–a huge plus in a market starved for fresh credit.

For example, in February the company announced it was acquiring the final 10% interest in its Boundary Lake project with a $95 million bought-deal agreement involving the issue of 13,770,000 shares at $6.90 per share. Its press release also noted that "members of the Whitecap board of directors, management team and employees are expected to participate in the financing."

The deal allowed Whitecap to raise its 2016 production guidance from 37,000 boe a day to 38,800 boe a day, all without further stressing the balance sheet.

A long-term opportunity

Whitecap management has consistently taken proactive measures to protect and grow the company. A conservative hedging program, limited leverage, and disciplined capital spending have allowed it to navigate the current crisis with relative ease. Recent actions will continue to protect its balance sheet while providing production growth and greater profitability when oil prices improve.

While you wait, a sustainable 6% dividend should keep income investors happy.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:WCP (Whitecap Resources Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/07/26
Date Created
2016/03/30
Author
rvanzo