Why ARC Resources Ltd. (TSX:ARX) Stock Fell 13% in June

Description

Calgary-based oil and gas company **ARC Resources** (TSX:ARX) had to make a difficult decision in June opting to cut its 2019 capital expenditures by approximately 10% to $700 million.

Although the June 20 announcement did send ARX stock lower over the remainder of the month, the news is ultimately good for shareholders, especially those concerned about the company's five-cent monthly dividend staying intact, because it reassures them management is focused on protecting the balance sheet by not overspending at a time when oil prices are in steep decline.

While the company's CapEx cut due to the postponement of the Attachie West Phase I gas processing and liquids-handling facility is disappointing, Raymond James analyst Jeremy McCrea believes the move is a prudent one.

"Although we are disappointed that Attachie Phase 1 is now not likely on stream before June 2022 (given the quality of asset), long-term value investors should appreciate the difficult decision made by the company to protect the balance sheet, that ultimately might attract investors back into the name given the current valuation," McCrea wrote in a note to clients.

McCrea lowered his price target by $1 to $15.25. He still maintains a "strong buy" on ARC stock.

Since the company's inception in 1996, it has delivered a 10% return on average capital employed (ROACE) with only two years out of 23 generating a negative return.

The company is currently yielding 9.6%, 80 basis points higher than when McCrea wrote the note June 21. It looks like a buy for investors eager to gain yield and willing to take on above-average risk.

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