Risky Investors: Buying Shares of This 1 Stock Today Could Make You Rich

Description

This company is an intermediate natural gas and liquids development and production corporation with a substantial stake in the Montney resource play located in Western Canada. The entire region spans 130,000 square kilometres and is located both in Alberta and British Columbia.

Its share price has increased 3% year to date with a 52-week high of $3.46 and a 52-week low of $1.35. The company I am referring to is **Advantage** (TSX:AAV), and investors willing to ride through the current natural gas trough will be generously rewarded in the future.

An interpretation of the numbers

For the six months ended June 30, 2019, the company reported an unimpressive balance sheet with negative retained earnings of $1.1 billion due to multiple years of net loss. This is a bad sign for investors, as it indicates the company has a negative tangible net worth, which represents the real value of a company. There is, however, a silver lining with a decrease in accounts receivables by $11 million (which suggests the company is collecting from its debtors).

On the income statement, the company reported an increase in revenues by $13 million compared to the same period last year. Unfortunately, these gains are offset by an increase in total expenses of $16 million, largely driven by an increase in depreciation expense of $10 million. Net income is $4 million for the period due to a one-time $11 million reduction in its deferred income tax liability. Adjusting for this, the company would report a $7 million net loss, which is down from a $5 million net loss in the same period last year.

Advantage's cash flow statement indicates an increase in operating cash flows from $80 million to $89 million. From an investing activity point of view, the company is spending less on PP&E, which represents a decrease in capital expenditure (CAPEX) spending. Investors looking to buy shares of Advantage should look into successive periods of decreasing CAPEX spending, as it indicates a slowdown in the company's operations, which is not a good sign.

But wait, there's more

Looking at the company's year-end 2018 financials indicates that it is producing more boe/d (barrels of oil equivalents per day) compared to fiscal 2017. This is complemented by an increase in proved and probable reserves, which increases the value of the resources the company owns. These benefits are offset by the fact that the majority of the company's reserves are natural gas, which is currently in a trough. Investors willing to assume the risks of a historically low natural gas price will be poised to receive significant gains upon its recovery.

On its second-quarter 2019 financials, the company reports operating facilities totaling $400 million. This is a good sign for investors given that the company ended the period with $7 million in cash, which means it may need to draw on its operating line to support business operations.

Investors will also be pleased to discover that the corporate tax rate in Alberta will decrease from 12% to 8% by January 1, 2022. Investors can expect Advantage to report one-time reductions until this date, whereby it will continue to benefit from low taxes.

Foolish takeaway

Investors that have an appetite for risk and are willing to ride out the natural gas trough should look into buying shares of Advantage.

Despite its negative retained earnings and many years of net loss, the company produced more boe/d in fiscal 2018 compared to the prior year, and its proved and probable reserves increased. Both of these factors are positive signs for oil and gas companies.

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1. TSX:AAV (Advantage Oil & Gas Ltd.)

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