Natural Gas Investors: This 1 Stock Is on the Brink of Greatness!

Description

Canacol (TSX:CNE) is engaged in natural gas exploration and development activities in Columbia. The company holds an interest in Oleoducto Bicentenario de Columbia, which owns a pipeline linking the Llanos basin oil production to the Cano Limon oil pipeline system.

Its share price is up 15.87% year to date with a 52-week low of $3.65 and a 52-week high of $5.05.

An interpretation of the numbers

For the six months ended June 30, 2019, the company reported an acceptable balance sheet with a growth in assets of $7 million driven by additions to PP&E of $17 million. Its liabilities decreased $2 million from $500 million to $498 million, driven by a reduction in deferred tax liabilities of $5 million and trade and other payables by $5 million. Retained earnings are negative $14 million, which improved from $(22) million the prior year. When the company achieves positive retained earnings, it will indicate to investors its cumulative net income exceeds its cumulative net loss.

The company reports a decrease in revenues from $109 million in 2018 to $101 million in 2019. This is largely driven by a decrease in petroleum revenues of $15 million. Despite this, the company reported a pre-tax net income of $23 million, which is up from the pre-tax loss in 2018 of $8 million. Net income is $8 million for the period, which is up from $(17) million the prior year.

Looking at the company's cash flow statement indicates another strong period of operating cash flows, which were down to $34 million from $39 million the same period last year. It increased capital-expenditure spending in 2019 to $38 million from $22 million in 2018. Canacol did not withdraw any long-term debt in 2019 compared to a $320 million withdrawal and $305 million pay-down in 2018. Th ending cash balance is $29 million.

But wait, there's more

Looking at the company's notes to its financials indicate a couple of important items.

Firstly, the company recognized $9 million of exploration and evaluation assets as development and production assets. This is important for investors to note, as it is prompted by the company discovering two natural gas reserves: Acordeon-1 and Ocarina-1, which occurred on its VIM-5 block.

Secondly, the company sold its working interest in the Sabanas flowline for net proceeds of $12 million, which resulted in a loss on sale of assets of $0.8 million. The company also recognized $4.3 million of revenue in the consolidate statements of operations since ownership of Sabanas began, which returned $2.3 million in cash to the company on $14 million of expenditures. Overall, the company realized a net gain on the use and subsequent sale of the asset.

Thirdly, the company paid off its credit facility in 2018 by using the proceeds from the senior notes issued the same year. During fiscal 2018, the entirety of the $305 million syndicated term loan was repaid, and it entered another agreement for a $30 million secured term loan. The proceeds from the $30 million loan were used to purchase the Jobo 2 natural gas processing facility (previously financed) and to expand its Jobo 3 plant.

Foolish takeaway

Natural gas investors looking to bet on a company that will reap the rewards from an increase in natural gas prices should consider buying shares of Canacol. It's financial statements indicate strong cash balance, an almost positive retained earnings and solid revenues.

With the discovery of additional natural gas reserves, the company is on track to growing its business and deliver greater value to shareholders.

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Date
2025/08/15
Date Created
2019/11/10
Author
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