Energy Investors: This 1 Stock Should NOT Be in Your Portfolio

Description

Crescent (TSX:CPG) is engaged in the acquiring, developing and holding interests in petroleum and natural gas properties and assets through a general partnership and wholly owned subsidiaries.

The company's share price has a 52-week low of $3.24 and a 52-week high of $6.30 with an increase of 21.56% year-to-date.

An interpretation of the numbers

For the nine months ended September 30, 2019, the company reports a poor balance sheet with negative retained earnings of $10.7 billion down from $10.6 billion at year-end 2018, which means that the company has more years of net loss than net income.

Looking at the total assets, PP&E decreased from $10.4 billion to $9 billion, which is largely driven by a reclassification of $869 million as assets held for sale. Total liabilities are down to $5.7 billion from $6.1 billion due to a $700 million net decrease in long-term debt.

Revenues remained stagnant from $2 billion the prior year to $1.988 billion in 2019, which is largely due to a decrease in derivative losses from $536 million in 2018 to $95 million in 2019. Crescent's revenues are down significantly from $3.1 billion in 2018 to $2.6 billion in 2019 due to a $382 million decrease in Canadian crude oil sales.

On the plus side, total expenses decreased by $323 million, which resulted in a net loss of $101 million, down from $226 million the prior year.

Cash flows continue to be strong with cash from operations of $1.346 billion, down slightly from $1.389 billion. The company's cash from investing activities essentially halved year over year due to a $550 million decrease in development capital and other expenditures.

But wait, there's more

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

First, the company has access to a $3.0 billion credit facility, which is down from $3.6 billion last quarter. This consists of a $2.9 billion syndicated unsecured credit facility and a $100 million unsecured operating credit facility.

The banks imposed specific debt covenants to ensure the company has a capacity to repay. As of September 30, 2019, the company is in compliance with all covenants.

Second, the company announced a normal course issuer bid (NCIB) on January 23, 2019, which allows the company to repurchase and cancel up to 38,424,678 common shares (or 7% of the public float). As at September 30, 2019 the company purchased and cancelled eight million shares for a total consideration of $39.4 million.

Third, the company completed to sale of its Uinta Basin assets for $680 million, providing the company additional cash it can use to pay down debt, reinvest in the company or set aside for future dividends.

Foolish takeaway

With a $10.7 billion negative retained earnings, it's hard to justify investing in Crescent. The company continues to report net losses and has been hit hard by the recent downturn in the oil and gas sector, with revenues decreasing $500 million for the nine months year over year.

On the plus side, the company issued an NCIB and purchased eight million shares for cancellation. This is a strategy used by senior management to indicate that it believes the current share price is undervalued. Coupled with the recent asset sale, this will provide the company with an additional $680 million with which to run the business.

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