Canadians: This 1 Stock Is Down 22%: Should You Buy the Dip?

Description

Enerplus (TSX:ERF)(NYSE:ERF) is a North American crude oil and natural gas exploration and development company. It owns subsidiaries that operate out of Canada and the United States. The majority of oil production is derived from the Williston and Waterfloods basins and the Marcellus provides a large portion of natural gas production.

The company has a 52-week high of $13.70 and a 52-week low of $7.32 and is down 21.56% year to date.

An interpretation of the numbers

For the six-months ended June 30, 2019, the company reports a mediocre balance sheet with $1.65 billion in negative retained earnings, down from $1.77 billion negative retained earnings the previous year. Despite this concerning figure, however, there are other companies that report a much worse negative retained earnings (such as **Crescent Point Energy**).

Thus, I'm not too concerned about Enerplus' current financial position. The company acquired additional PP&E and paid down $86 million in long-term debt, which are positive signs for investors.

Looking at the company's income statement, total revenues increased from $481 million in 2018 to $551 million in 2019, resulting in net income of $104 million. The increase in net income was largely attributed to a decrease in commodity derivative loss, but was also supported by a $16 million increase in oil and natural gas sales.

As the company continues to report net income, its negative retained earnings will steadily decrease. Investors should pay attention to the company's retained earnings, as a return to positive territory will bode well for shareholders.

Cash flow statements are solid, with an increase in operating cash flow from $301 million to $346 million coupled with a cash outflow of $90 million used by the company to repurchase and cancel shares. The company ended the period with $253 million in cash and equivalents, giving them sufficient liquidity.

But wait, there's more

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

First, the company is domiciled in Alberta, which means it benefitted from the decrease in the corporate tax rate from 12% to 8% over four years. The company's overall net deferred income tax asset was $424 million at June 30, 2019 of which $26.3 million was recognized during the three months ended June 30, 2019.

During this time, the company also settled a dispute with the CRA, which resulted in a current tax recovery of $13.9 million.

Second, the company renewed its normal course issuer bid (NCIB) on March 21, 2019 that allows it to purchase and cancel up to 16,673,015 common shares. During the six months ended June 30, 2019, the company purchased 8,358,821 common shares for a total consideration of $90.4 million.

Following the report date, the company purchased an additional 981,266 common shares in August for $8.8 million. This is a good sign for investors, as it suggests the senior management believes its share price is undervalued.

Foolish takeaway

Investors looking to buy the dips should consider purchasing shares of Enerplus. Despite its $1.65 billion retained earnings, the company has demonstrated it's able to generate net income, ultimately reducing the retained deficit.

As Alberta's decreased income tax rate takes full effect and the company continues to buy shares under its NCIB, investors will be awarded in the future as the company becomes more profitable.

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cliu