



TFSA Investors: Is This 1 Stock The Energy Titan of 2020?

Description

Contrary to what the title suggests, this is not a lesson in Greek mythology. Rather, this is an opportunity for you as an investor to buy shares of a strong oil and gas company that is several quarters away from achieving positive retained earnings.

The reason why this is important for investors is because positive retained earnings indicate the company has had more years of net income than net loss. The [company I am referring to](#) is **Kelt** ([TSX:KEL](#)), which is focused on the exploration, development and production of crude oil and natural gas resources in northwestern Alberta and northeastern British Columbia.

The company operates two core area which are Grande Prairie, Alberta, and Fort St. John, British Columbia. The company wholly owns Kelt Exploration, which operates the company's British Columbia assets.

An interpretation of the numbers

For the six months ended June 30, 2019, the company reports an acceptable balance sheet with \$188 million in negative retained earnings, up from \$200 million negative retained earnings the prior year. Total assets are up from \$1.4 billion to \$1.6 billion, largely driven by a \$160 million increase in PP&E. Total liabilities are up \$138 million due to an \$82 million increase in bank debt.

Looking at the company's income statement, revenues are up to \$192 million from \$173 million the prior year. This is driven by increases in gas production from \$47 million to \$61 million, which reported the largest growth by segment year over year. This has resulted in pre-tax income of \$16 million and after-tax income of \$12 million. This is up from the same period last year, whereby after-tax income was \$2 million.

The company's cash flows continue to be strong with operating cash flows of \$112 million, up from \$93 million the prior year. The company drew \$82 million from its credit facilities compared to \$16 million the prior year. Capital expenditure spending is up \$93 million, which suggests that the company is continuing to grow.

But wait, there's more

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

Firstly, the company has access to a \$315 million revolving credit facility. This is a good sign for investors, as credit facilities provide companies with much-needed liquidity, especially when cash is tight. Given Kelt's cash balance of \$113,000 at June 30, 2019, its credit facilities may be needed to allow the company to conduct its day-to-day operations.

Secondly, the company derives 54% of its revenue from oil production and 30% of its revenue from gas production. Investors considering buying shares of Kelt should keep a close eye on oil and gas prices given the company's exposure. Revenue from other oil and gas companies consist of a larger share of natural gas liquids (NGLs), which spread price risks across three types of oil and gas products. This is not the case for Kelt with NGLs representing 9% of total revenues.

Foolish takeaway

Investors looking to [diversify their portfolios](#) and purchase shares of an oil and gas company should consider Kelt. Despite its \$188 million in negative retained earnings and oil-centric revenue source, the company has access to a \$315 million, which provides liquidity and increased its capital-expenditure spending, which suggests future business growth.

CATEGORY

1. Energy Stocks
2. Investing

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1. TSX:KEL (Kelt Exploration Ltd.)

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