Canadians: Buy This 1 Stock During the Recession and Benefit for Life!

Description

NuVista (TSX:NVA) is a condensate and natural gas company engaged in the exploration, development, and production of condensate, oil, and natural gas reserves in the Western Canadian Sedimentary Basin.

The company's approach is to focus on the scalable and repeatable Montney formation in the Alberta Deep Basin.

An interpretation of the numbers

For the six months ended June 30, 2019, the company reported a good balance sheet with $102 million in retained earnings. This is down from $136 million the prior year but is still strong. Positive retained earnings indicate to investors that the company has more years of net income than net loss, which is a good sign.

Total assets are up from $2.2 billion to $2.4 billion as of September 30, 2019. This is driven by an increase in capital-expenditure spending by $130 million. Total liabilities are also up from $776 million to $998 million driven by an increase in lease liabilities from nil to $117 million associated with office leases, gas processing, and gas transportation commitments.

Looking at the company's income statement, it reported a decrease in revenues from $337 million in 2018 to $319 million in 2019. This is largely driven by an $81 million unrealized loss on financial derivatives. Revenues from petroleum and natural gas sales decreased slightly from $413 million to $405 million. The company reported an after-tax loss of $34 million, down from $32 million the prior year.

The company reports solid cash flows with an operating cash flow that increased slightly from $181 million in 2018 to $184 million in 2019. The company issued shares and debt in 2018 for proceeds of $396 million and $215 million, respectively. No significant amount was raised in 2019. Capital-expenditure spending is stagnant.

But wait, there’s more

Looking at the company’s notes to its financials indicates a couple of important items.

Firstly, the company has access to a revolving credit facility of $500 million from a syndicate of banks. As of September 30, 2019, the company had drawn $356.8 million on its credit facility and outstanding letters of credit of $8 million (which reduces the credit available on the facility). The company has 27% of its credit facility available, which is a good sign for investors, as it allows the company to fuel its growth. Given that the company reports nil cash, having the credit facility is very important.

Secondly, the company derives the majority of its revenue from condensate and oil (63%) followed by natural gas revenue (33%) and natural gas liquids revenues at 4%. Given the company’s exposure to natural gas and the current natural gas slump, revenues have taken a hit. As natural gas prices recover, the company is well positioned to benefit from increases in price, which ultimately benefits shareholders.

Foolish takeaway

Investors looking to diversify their portfolios and purchase shares of an oil and gas company should consider buying NuVista. Given its positive retained earnings, increasing asset profile, and access to a $500 million revolving credit facility, the company is well positioned and well capitalized to benefit from the impending rebound of natural gas prices.

Further to this, the company’s diversified revenue stream allows it to spread price risk across different oil and gas products.

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Date
2025/06/30
Date Created
2019/11/19
Author
cliu