



Canadians: Buy This 1 Stock and Beat the Market!

Description

Painted Pony (TSX:PONY) is engaged in the development and production of [natural gas and natural gas liquids](#) in western Canada. The company has a current market capitalization of \$106 million with a 52-week high of \$2.21 and a 52-week low of \$0.54.

An interpretation of the numbers

For the six-months ended June 30, 2019, the company reports a mediocre balance sheet with negative retained earnings of \$39 million, down from positive retained earnings of \$15 million in 2018. This is driven by a \$54 million net loss during this period.

Total assets are down \$37 million from \$2.06 billion to \$2.02 billion, which is driven by decreases in accounts receivable by \$35 million.

The decreases in accounts receivable is both a good and a bad sign, as it indicates that the company is financially savvy by collecting its payments in a timely manner.

It also indicates that the company is strapped for cash. Total liabilities are up slightly by \$15 million, driven by increases in decommissioning obligations of \$18 million.

Looking at the company's income statement indicates a drop in revenues from \$210 million in 2018 to \$174 million in 2019. This is driven by a decrease in natural gas and natural gas liquids (NGL) revenues by \$57 million, which is to be expected given the slump in natural gas prices.

The company reported a pretax loss of \$72 million, which reduced to \$54 million with deferred income tax recovery of \$18 million.

The company continues to report strong cash flows with cash from operations of \$80 million, down from \$121 million in 2018. PP&E spending decreased from \$135 million in 2018 to \$75 million in 2019.

I commend the management team on this decision, as the company is heavily exposed to natural gas,

which means the current market doesn't support additional spending on PP&E.

But wait, there's more

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

First, the company has credit facilities totalling \$375 million, which include a \$325 million revolver and a \$50 million operating facility. The credit facilities were drawn down \$156 million as at September 30, 2019.

This represents a 41.6% utilization rate. The company also has outstanding bankers' acceptances of \$167 million and letters of credit of \$44 million, reducing the credit available on the facilities.

Second, the company is economically reliant on three customers for its revenues. As at September 30, 2019, the three purchasers collectively represent 95% of total revenues and 83% of accounts receivables.

This is very concerning, as the departure of one or more of these customers will have serious ramifications for the company. Despite this, however, I still believe that the company is well positioned to deliver strong returns for investors, as indicated by the adeptness of the management team.

Finally, the company announced it would sell 11,280 gross acres of land in northeast British Columbia Montney for cash consideration of \$45.0 million, which is expected to close on November 8, 2019.

Investors should expect to see proceeds from the sale of assets on the company's financial statements during Q4 — a nice boost.

Foolish takeaway

Investors looking to diversify their portfolio and purchase shares of an oil and gas company should consider buying Painted Pony.

Despite its negative retained earnings and economic dependence on three of its customers, senior management has proven its ability to effectively manage the company with cuts in PP&E spending and the collection of its accounts receivables which gives the company access to cash. Fellow Fool Matt Smith [begs to differ, however](#).

With a 58.4% unused credit facility, the company should be able to push through the natural gas price slump and return to profitability.

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Date

2025/08/17

Date Created

2019/11/21

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