



Savvy Investors: Don't Miss the Opportunity of a Lifetime to Buy This 1 Stock

Description

Paramount ([TSX:POU](#)) is a liquids-focused Canadian energy company engaged in the exploration and development of conventional and unconventional petroleum and natural gas resources.

The company also engages in a long-term strategic exploration and pre-development plays and holds interest in various entities, including Fox Drilling Limited Partnership, Cavalier Energy and MGM Energy. The company reports [significant insider ownership](#).

The company has a market capitalization of \$775 million with a 52-week high of \$9.97 and a 52-week low of \$4.91.

An interpretation of the numbers

For the nine months ended September 30, 2019, the company reports a mediocre balance sheet with \$35 million in negative retained earnings. This is a departure from nine months ago, when it reported retained earnings of \$21 million.

While this isn't a good sign for investors, as it indicates more years of cumulative net loss than net income, I am not overly concerned with this given the company's overall financial position.

Total assets are down \$347 million, driven by a \$108 million decrease in deferred income tax. This is seconded by a drop in PP&E of \$102 million.

Total liabilities decreased by \$167 million driven by a decrease in long-term debt of \$94 million, suggesting fiscal responsibility on the part of management.

Overall revenues are down noticeably from \$697 million in 2018 to \$609 million in 2019. The company was prudent in reducing operating expenses to offset the drop in revenues.

It accomplished this by reducing operating expenses from \$808 million to \$522 million driven by a \$128 million drop in depletion and depreciation expense. The company recorded an after-tax net loss of \$57

million for the period.

Cash from operations is still strong at \$185 million compared to \$211 million the prior year. The company repaid \$94 million in long-term debt, representing its most significant financing cash outlay.

PP&E spending fell dramatically from \$453 million in 2018 to \$332 million in 2019. The company realized a one-time gain on the sale of assets of \$329 million, up from \$182 million the prior year. The continuous sell offs are likely used to free up cash for the company.

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 \$1.5 billion, of which \$721 million is utilized as of September 30, 2019. This represents an acceptable utilization rate of 48%.

The company also entered into a \$40 million unsecured demand revolving letter of credit facility whereby its obligations are supported by a performance guarantee from Export Development Canada.

This is not a good sign for investors, as Export Development Canada is a Tier 3 lender, which means that Paramount will face challenging times ahead.

Second, the company issued a normal course issuer bid (NCIB) in January 2019 whereby it may purchase and cancel up to 7,110,667 common shares for cancellation.

As at October 31, 2019, the company has purchased and cancelled 2,622,200 for a total cost of \$14.4 million. This is a good sign for investors, as it indicates that management believes its share price is undervalued.

Foolish takeaway

Investors looking to diversify their portfolio and purchase shares of an oil and gas company should [consider buying Paramount](#). Despite its negative retained earnings, however, the company reports a solid balance sheet and income statement that will help it return to profitability in future years.

Given its \$1.5 billion revolver (albeit a \$40 million credit facility backed by Export Development Canada), I believe the company has enough liquidity to get itself back on track and deliver returns to investors in the long run.

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