TFSA and RRSP Investors: Is this Value Stock Cheap Enough?

Description

Advantage Oil & Gas (TSX:AAV) acquires, exploits, develops, and produces natural gas and liquids in Alberta, Canada. The company focuses on the development and production of the Montney natural gas and liquids resource that includes 200 net sections of land.

The company provides natural gas and natural gas liquids primarily through marketing companies. The company was incorporated in 2001 and corporate headquarters is in Calgary, Canada.

The company is very cheap, with a a price to book ratio of 0.34 and a market capitalization of 450 million. Debt is very sparingly used at Advantage, as evidenced by a debt to equity ratio of just 0.21. The company has been impacted by lower oil leading in sub-par performance metrics with an operating margin of 1.08% and a return on equity of 0.18%.

The company has been executing well amid a tough environment and development is proceeding as planned on Advantage's significant Montney oil and liquids assets, and exposure to light oil and condensate revenue has increased. The company's delineation program resulted in the discovery of a light oil pool on a lucrative land block called Progress.

With this discovery, the Progress asset has become Advantage's fourth liquids development asset, further strengthening the company's portfolio of high-quality resource. Advantage now holds a total of 210 net sections of Montney-Doig rights.

During Q3 2019, the company's liquids production increased 74% year-over-year and liquids accounted for 23% of revenue, on-track to the company's target of approximately 50% of revenue from liquids in 2021.

The company engaged in a production management strategy to fix natural gas prices and shut-in significant volumes of dry natural gas during extremely low-price periods in the third quarter of 2019.

In 2019, the company's total liquids production was 7% higher than 2018. The company generated funds flow of $110.7 million and net capital expenditures were $125.3 million. Advantage also achieved $37.6 million of gains from the company's market diversification portfolio, including $24.1 million of hedging gains.

In 2017, **TC Energy** incorporated a regulation that made accessing storage for natural gas more onerous, but the Canada Energy Regulator, TC Energy, Alberta government and gas producers reached an agreement.

Despite this year’s storage levels being about 27% below Canada’s five-year standard, Advantage has been cautious at the risk filled opportunity to produce.

The company maintains a low cost structure and retains strong financial flexibility with total debt to funds flow of 1.8. Advantage expects to maximize gas production for the remainder of the year.

The company anticipates reduced price volatility and improved prices through this winter as a result of extremely low Alberta natural gas storage levels and an apparent contraction in industry supply as a result of reduced investment.

The company has been diligent in monitoring commodity and industry trends and has responded accordingly to retain a strong balance sheet while advancing a multi=year strategy to increase liquids development and enhance shareholder returns.

Advantage has very low debt, giving the company the ability to take advantage of rock bottom company prices to go on an acquisition spree.

Management has been prudent in pursuing opportunities to enhance shareholder value including diversifying into the high margin natural gas liquids business and hedging production.

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