Young Investors: Betting On This 1 Stock Could Make You Rich!

Description

Surge (TSX:SGY) is engaged in the exploration, development, and production of oil and gas from properties in western Canada. The company pays dividends and currently boasts a dividend yield of 9.90%.

The company has a market capitalization of $327 million with a 52-week high of $1.77 and a 52-week low of $0.93.

An interpretation of the numbers

For the nine months ended September 30, 2019, the company reported a mediocre balance sheet with negative retained earnings of $702 million (down from negative retained earnings of $663 million the prior year). Total assets are up $5 million, primarily driven by an increase in accounts receivable from $21 million to $41 million.

Total liabilities are also down from $903 million as at December 31, 2018, to $753 million as of September 30, 2019. This was driven by a reduction in bank debt by $100 million. Investors should be pleased with the reduction in bank debt, as it indicates fiscal responsibility on the part of management.

Despite the slump in natural gas and petroleum prices, the company has still managed to increase its petroleum and natural gas revenues year over year from $246 million in 2018 to $303 million in 2019. The increase in revenues is largely due to the rebound of oil prices as a result of Alberta's curtailment laws, which restrict production. The company took a $12 million loss on disposal of petroleum and natural gas properties coupled with an increase in depletion and depreciation expense of $49 million. After-tax net loss of $15 million was recorded for this period.

The company's cash flow continues to be strong with cash from operations of $115 million (up from$95 million the prior year). The company had a cash outflow from financing activities due to the $100million pay-down of bank debt. Surge received $57 million on the sale of an asset, which cost them $69million. Although the loss is not ideal, many oil and gas companies are liquidating assets to generatecash.

But wait, there's more

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

Firstly, the company has credit facilities totaling $500 million, which consists of a $450 million credit facility and a $50 million operating loan. As of September 30, 2019, the company has $308 million outstanding on its credit facilities, which equate to a 62% utilization rate. Given the company's nil cash balance this is an important feature for Surge to have, as it allows the business to grow and to engage in its day-to-day operations.

Secondly, the company derives 97% of its revenues from oil, which essentially makes it a pure-play company. Investors that are curious as to how the company is able to generate increasing revenues given the struggles in Western Canada can attribute the growth to a recovery in oil prices due to Alberta's curtailment policies. It should be noted that 84% of the company's revenues comes from three customers. This demonstrates economic reliance on the part of the company, which concerns me. Investors should judge for themselves if they are willing to assume the risks involved with investing in Surge.

Foolish takeaway

Investors looking to diversify their portfolios and purchase shares of an oil and gas company should consider buying Surge. Despite its negative retained earnings, the company is a pure-play oil corporation, which has helped it grow its revenues year over year. Further to this, the company's credit facilities are 38% unutilized, which gives it an opportunity to grow in the near future.

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