Ontarians: This 1 Stock Is Good, But Not for the Faint of Heart

Description

Tamarack (TSX:TVE) is engaged in the exploration, development and production of oil and natural gas. Its strategy is to drill and acquire repeatable and predictable long-life assets in the Western Canadian Sedimentary Basin. It also boasts substantial insider ownership, however.

The company owns subsidiaries in Canada and the United States. It reports a market capitalization of $411 million with a 52-week high of $3.09 and a 52-week low of $1.59.

An interpretation of the numbers

For the nine months ended September 30, 2019, the company reports a mediocre balance sheet with negative retained earnings of $55 million (up from negative retained earnings of $67 million the prior year). Total assets are up $106 million, driven by an increase in PP&E by $109 million.

Total liabilities are up by $92 million driven by a $37 million increase in bank debt. The company also increased decommissioning obligations by $32 million. These liabilities are recognized by the company to restore the land to its initial state after oil and gas extraction is completed.

Looking at the company's income statement indicates a material drop in oil and natural gas revenues from $326 million in 2018 to $283 million in 2019.

The company derives most of its revenue from light oil sales (83%) followed by natural gas (10%). Undoubtedly, the company was adversely affected by the natural gas price slump which account for a portion of the revenue decline. The company reports after-tax income of $12 million, down from $19 million the prior year.

The company's cash flow statement continues to be strong with $151 million in cash from operations, down from $188 million the prior year.

Under financing activities, the company exercised an option to purchase a leased asset for $22 million, which it added to PP&E. Overall PP&E spending for this period is less year-over-year decreasing from

$198 million to $155 million in 2019.

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 totaling $350 million, which consists of a $320 million revolver and a $30 million operating facility.

As at September 30, 2019, the company has $199 million outstanding, which represents a utilization rate of 57%. The company also offers an accordion option that allows the revolver to be increased to $370 million. It has not yet been executed, but gives the company access to additional liquidity for growth and daily operations.

Second, the company issued a normal course issuer bid (NCIB) in April, 2019. The NCIB allows the company to repurchase and cancel shares that trade on the stock market. Share repurchases are usually authorized by management when it believes its share prices are currently undervalued.

The NCIB allows Tamarack to repurchase and cancel up to 8.6 million shares. During the period ended September 30, 2019, the company purchased and cancelled 1,745,100 common shares for a total purchase price of $3.8 million.

Third, the company is poised to benefit from the reduction in the corporate tax rate from 12% to 8% by January 1, 2022. For the nine months ended September 30, 2019, the company recognized deferred income tax recover oy $6.5 million. Long-term benefits include an overall lower tax obligation.

Foolish takeaway

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

Despite its negative retained earnings and decreasing revenues, the company continues to have strong operational cash flows with ample access to cash through its credit facilities.

Further, the company has purchased $3.8 million of shares through its NCIB, an indication from senior management that it believes the current share price is undervalued.

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Date
2025/09/26
Date Created
2019/11/27
Author
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