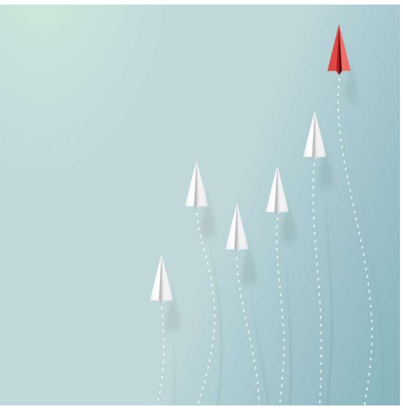

TFSA Investors: This 1 Stock Has the Potential to Deliver MASSIVE Returns

Description

TORC (TSX:TOG) is engaged in the exploration and production of petroleum and natural gas in the Western Canadian Sedimentary Basin. The company's focus is on light oil resource plays and follows its three-stage strategy of resource capture, delineation, and production growth. It has a high dividend yield.

The company reported a market capitalization of $847 million with a 52-week high of $5.46 and a 52-week low of $3.03.

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 $552 million (down from negative retained earnings of $529 million the prior year). Total assets increased $24 million driven by an increase in trade and other receivables of $19 million.

Total liabilities are up $26 million driven by an increase in decommissioning obligations of $38 million. The company reduced its bank debt by $40 million, which demonstrate fiscal responsibility on the part of management.

Overall revenues are up $18 million from $421 million in 2018 to $440 million in 2019. Given that the company derives 97% of its revenue from crude oil, this increase is not a surprise, as mandatory curtailment in Alberta has increased the price of Canadian crude. Total expenses also increased driven by a $26 million increase in depletion and depreciation. After-tax net income of $23 million, which is down from $41 million the prior year.

TORC's cash flow statement is strong with cash from operations of $217 million (down slightly from $221 million the prior year). Overall capital-expenditure spending is up from $138 million in 2018 to $148 million in 2019. This is a good sign, as it indicates the company is continuing to invest in itself. The company also paid $31 million of dividends in 2019.

But wait, there’s more

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

Firstly, the company has credit facilities totaling $500 million, which consists of a $445 million syndicated facility and a $55 million operating facility. The company has $295 million outstanding, which represents a utilization rate of 59%. This is good news for investors, as a low utilization rate gives the company flexibility to draw on its credit facilities to fuel growth.

Secondly, the company derives the majority of its revenues from crude oil (97%). The increase in crude oil prices due to Alberta’s curtailment has benefitted the company’s revenues. Despite this, the lack of diversification can have serious ramifications when the price drops. Many other oil and gas companies are diversified across different oil and gas products, which helps spread the risk.

Foolish takeaway

Investors looking to diversify their portfolios and purchase shares of an oil and gas company should consider buying shares of TORC. Despite the company’s negative retained earnings, the company reported increasing revenues year over year coupled with increased PP&E spending. The increased spending signals to investors that the company is investing in itself, which will ideally deliver benefits to investors down the road.

TORC also has access to a $500 million credit facility with a 59% utilization rate. This low utilization rate enables the company to fuel future growth opportunities.

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Date
2025/08/24
Date Created
2019/11/28
Author
cliu