Retirees: This 1 Superhero Energy Stock Is a Buy-and-Hold Utopia!

Description

Transglobe (TSX:TGL)(NASDAQ:TGA) is engaged in oil and natural gas exploration, development, and production as well as the acquisition of oil and natural gas properties.

The stock has a market capitalization of $110 million with a 52-week high of $2.95 and a 52-week low of $1.45.

An interpretation of the numbers

For the nine months ended September 30, 2019, the company reported a strong balance sheet with retained earnings of $44 million, which is down slightly from $45 million the prior year. The company increased its petroleum and natural gas assets by $2.7 million year over year. This is a good sign, as it suggests the company is investing in itself. Management is also keen on keeping its debt under control, as indicated by an $11 million pad-down in long-term debt.

Unsurprisingly, revenues are down from $136 million in 2018 to $112 million in 2019 (-21%). On the plus side, the decrease in total expenses outpaced revenues with a decline from $131 million to $88 million (-33%). After-tax income of $5 million for the period, which is up from a $16 million net loss in 2018.

Capital-expenditure spending increased for Transglobe in 2019 at $25 million (this is up from $16 million in 2018). The company ended the period with $24 million in cash, which is an impressive feat in the oil and gas industry.

But wait, there's more

The company's notes to its financials indicate a couple of important items.

Firstly, the company has multiple credit facilities totaling $100 million. The first one is a $75 million crude oil prepayment agreement with Mercuria, of which $34.4 million is drawn as at September 30,

2019. This is coupled with a $25 million reserves-based lending facility with ATB, of which $7.3 million is drawn. The company does not expect any payment obligations until 2021.

Secondly, Transglobe is a dividend-paying entity with a current dividend yield of 6.12%. Investors should be cautioned that the company’s dividend policy is not set in stone. Transglobe only pays out dividends at the discretion of senior management, which means in some quarters, investors will not receive a dividend. Despite this, I still believe that Transglobe is a good investment, as the downturn in the oil and gas industry makes the stock undervalued.

Thirdly, the company has operations in Canada and Egypt. The reason why this is a plus from my point of view is because the Canadian crude oil industry is infamous for its low prices, which have only recently recovered due to Alberta’s curtailment policies. By being diversified in another country, Transglobe is able to benefit from higher crude oil prices, which raises the average profit per barrel. The company derives 86% of its revenue from Egypt, 13% from Canada, and 1% from corporate.

Foolish takeaway

Investors looking to diversify their portfolios and purchase shares of an oil and gas company should consider buying Transglobe. It is one of a very few oil and gas companies with positive retained earnings, which says a lot about the adeptness of senior management. Despite its inconstant dividend policy, I believe the real meat and potatoes of the company is in its stock price, which is trading near 52-week lows.

Further, the company’s exposure of international markets mean that investors have a lot to gain if Egypt crude oil prices stay constant and we see and increase in Alberta’s crude oil prices.

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