Contrarian Investors: This Oversold Stock Could Gain 100% in 2020

Description

What does a company do when its government has made it clear that it is not a fan of the sector in which the company operates? The company has a few options.

It can go private, it can operate without any innovation and follow a sad-sack approach where it eventually dies or it can come out all guns blazing and hunt for opportunities outside its home country. To paraphrase Dylan Thomas, it rages against the dying of the light.

If you find a company that's raging, a contrarian move would be to place a bet on it on the off chance that the company's rage pays off. That's why we are recommending a buy on **Enerplus Corporation** (TSX:ERF)(NYSE:ERF). The company has seen it all. It's gone from a high of over $32 in 2011 to a low of $3.42 in 2016 and is now trading at $8.61 at writing.

Focus on the United States market

Enerplus started off as an oil and gas royalty trust company in 1986 before switching gears to become an independent North American exploration and production company. However, the last half-decade has choked the oil sector in Canada as the government's policies have come into effect.

The company has gotten around Canadian regulations by focusing on acquiring assets in the United States such as the Bakken resource in North Dakota and Montana, and Marcellus shale oil in Pennsylvania.

These plays have not only helped Enerplus survive, but have also helped it grow. The company's third-quarter results for 2019 (September 30, 2019) had its cash flow from operating activities coming in at $159.8 million.

Third-quarter net income was $65.2 million. High-return production in North Dakota grew by 18% quarter over quarter. Third-quarter total production grew at 6% over the last quarter.

While the company is focusing on its U.S. assets, it is also giving value back to the shareholders.

Enerplus maintains its focus on costs, and returned over $70 million to shareholders through share repurchases and dividends. Year to date, the company has returned approximately $200 million to shareholders.

Enerplus' fourth-quarter capital activity will be approximately 30% lower compared to the third quarter and primarily focused on drilling in preparation for 2020. This will result in modestly lower production in the fourth quarter and is also expected to result in significant fourth-quarter free cash flow.

All of these movements by Enerplus are being discounted by the Canadian stock market. There is immense value in the stock and it's only a matter of time before it's unlocked.

Management has said that if oil prices remain over $50, they will focus on shareholder distribution, which means shareholders can expect the dividend yield to go up from the 1.42% it currently is at.

Apart from this, there is a chance for considerable capital appreciation. Analysts tracking the stock have given it a target price of $14.33. That's an upside of over 70%. If the stock hits its highest price target estimate of $18, you're looking at a mind-boggling 114% gain.

CATEGORY

1. Energy Stocks
2. Investing

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