



Enerplus Corp. (ERF)

Updated July 7th, 2019 by Kay Ng

Key Metrics

Current Price:	\$10	5 Year CAGR Estimate:	9.0%	Volatility Percentile:	93.3%
Fair Value Price:	\$10	5 Year Growth Estimate:	7.8%	Momentum Percentile:	3.9%
% Fair Value:	0%	5 Year Valuation Multiple Estimate:	0%	Growth Percentile:	75.0%
Dividend Yield:	1.2%	5 Year Price Target	\$14	Valuation Percentile:	90.9%
Dividend Risk Score:	C	Retirement Suitability Score:	D	Total Return Percentile:	87.5%

Overview & Current Events

Enerplus (ERF) trades on the New York Stock Exchange and Toronto Stock Exchange under the tickers, NYSE:ERF and TSX:ERF, respectively. All the figures in this report are in Canadian dollars. The oil and gas producer was founded in 1986 and has a market capitalization of \$2.3 billion. Its gas production is estimated to be about 45% of its production mix this year. Due partly to volatile energy prices, Enerplus has cut its dividend multiple times in history. Since 2008, the company's dividend per share has been on a decline. Currently, it offers a yield of 1.2%. In 2018, 84% of its production was in the U.S.

Enerplus reported its first-quarter results on May 10, 2019. It guided for 2019 production of 97,000 to 101,000 barrels of oil equivalent per day, which includes liquids production growth of about 13% on a per-share basis. Strong pricing in Bakken oil and Marcellus gas helped drive adjusted funds flow of \$168.8 million in the first quarter. Strong cash flow generation allowed the company to buy back \$35 million of stock at a reasonable valuation. Compared to the first quarter in 2018, the company's diluted share count was reduced by about 3.1%.

Management expects liquids production to grow 15% in the second quarter against the first quarter and meaningful free cash flow generation in the second half of 2019 based on current forward commodity prices.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
BVPS	\$26.2	\$23.9	\$18.8	\$18.1	\$9.82	\$9.53	\$10.8	\$4.35	\$5.99	\$6.07	\$8.22	\$12.0
DPS	\$2.23	\$2.16	\$2.16	\$1.62	\$1.08	\$1.17	\$0.64	\$0.16	\$0.12	\$0.12	\$0.12	\$0.32
Shares	169.3	177.7	179.9	195.6	200.6	204.5	206.2	226.5	247.9	247.3	238.0	226.0

Enerplus' earnings-per-share are very volatile due to volatile energy prices, while its book value per share tends to move in tandem with its cash flow per share. But the book value has lower volatility than the cash flow. More importantly, the oil and gas producer's share price tends to more closely follow its book value and cash flow than its earnings. So, we chose to use the book value in the table above for growth and valuation purposes.

Enerplus' book value was at about \$12 per share as recent as 2015. Should energy prices improve, it's very possible that it'll hit \$12 again (or higher) by 2024. The company is estimated to improve cash flow generation over the next few years. Combined with a low payout that's about 4% of cash flow, the company can quite easily double the dividend by 2024. Stronger cash flow will also provide capital for the company to reduce its share count. However, the company also has a history of pushing out stock to raise capital.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/B	1.0	1.4	1.3	0.8	1.3	1.1	0.7	5.1	1.9	1.4	1.2	1.2
Avg. Yld.	8.5%	6.5%	8.8%	11.2%	8.5%	11.2%	8.5%	0.7%	1.1%	1.4%	1.2%	2.2%



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Enerplus looks reasonably valued at a price to book of about 1.2. We don't think the multiple is going to change much given the volatility of energy prices. Therefore, we expect an improvement in book value per share (should energy prices improve) to drive stock price appreciation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	122%	N/A	N/A	N/A	255%	N/A	N/A	34.4%	160%	20.2%	20%	35%

Because dividends are paid from cash flow, we decided to calculate the payout ratio from free cash flow instead of from earnings. (Notably, Enerplus may have paid cash or stock dividends from 2012-2016.) Enerplus' book value per share has been in a declining trend since 2009, during the last recession, in which the stock fell more than 50% from peak to trough. The energy price collapse in 2014 made things worse, and its book value per share bottomed in late 2016, although the stock bottomed and began rebounding much earlier in that year. Since 2009, Enerplus stock's total returns were -1.1% per year.

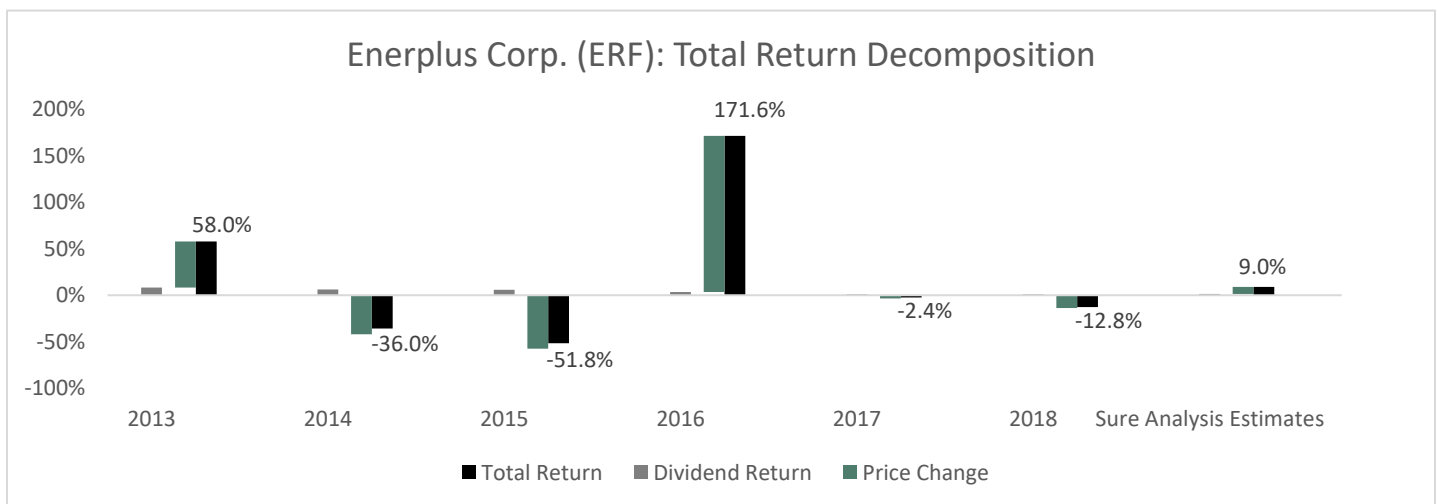
At the end of the first quarter, Enerplus' debt-to-equity ratio was 61%, while its debt-to-asset ratio was 38%. Its trailing 12-month interest coverage ratio is 13.3. So, the company's balance sheet isn't over leveraged. Enerplus has an advantage against most Canadian peers which operate largely in Canada, as it enjoys premium energy pricing for its production in the U.S.

Final Thoughts & Recommendation

Enerplus is a higher risk stock due to the volatile nature of its profitability and the unpredictable energy pricing landscape. Moreover, its low yield is unattractive for income investors. A buy-and-hold strategy is not the best way to go for investing in oil and gas producers, which are higher-risk investments. Interested investors with an above-average appetite for risk should aim to buy low and sell high but it's easier said than done.

Over the next five years, we estimate total returns of 9.0% in the stock, coming from a current yield of 1.2% and book value per share growth of 7.8% per year. We rate the security as a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1138	1287	1172	1154	1313	1382	693	666	881	1243
Gross Profit	644	788	311	191	297	387	-102	1	237	416
Gross Margin	56.6%	61.2%	26.6%	16.5%	22.6%	28.0%	-14.7%	0.1%	26.9%	33.5%
SG&A Exp.	78	121	96	94	107	95	81	65	57	58
Operating Profit	46	221	216	97	190	292	-183	-64	180	358
Operating Margin	4.1%	17.2%	18.4%	8.4%	14.4%	21.1%	-26.4%	-9.6%	20.4%	28.8%
Net Profit	78	-174	13	-271	47	271	-1194	300	183	292
Net Margin	6.9%	-13.5%	1.1%	-23.5%	3.5%	19.6%	-172%	45.1%	20.8%	23.5%
Free Cash Flow	174	-830	-515	-515	-161	-45	-70	-56	3	89
Income Tax	-82	-128	-83	-273	38	125	-131	-179	63	80

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	5605	5488	5606	3637	3458	3473	1860	1957	2104	2289
Cash & Equivalents	70	8	6	5	3	2	5	1	276	267
Accounts Receivable	135	126	122	46	34	36	16	25	24	22
Goodwill & Int. Ass.	576	151	152	603	573	538	474	483	508	481
Total Liabilities	1644	2160	2396	1676	1643	1558	1213	874	831	820
Accounts Payable	244	351	414	95	108	96	52	59	93	128
Long-Term Debt	530	732	889	1075	963	979	882	570	535	512
Shareholder's Equity	3960	3328	3210	1961	1815	1915	647	1083	1273	1469
D/E Ratio	0.13	0.22	0.28	0.55	0.53	0.51	1.36	0.53	0.42	0.35

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.5%	-3.1%	0.2%	-5.9%	1.3%	7.8%	-44.8%	15.7%	9.0%	13.3%
Return on Equity	2.1%	-4.8%	0.4%	-10.5%	2.5%	14.5%	-93.2%	34.7%	15.5%	21.3%
ROIC	1.8%	-4.1%	0.3%	-7.6%	1.6%	9.6%	-54.0%	18.9%	10.6%	15.4%
Shares Out.	169.3	177.7	179.9	195.6	200.6	204.5	206.2	226.5	247.9	247.3
Revenue/Share	6.71	7.31	6.50	5.90	6.52	6.66	3.36	2.88	3.55	5.03
FCF/Share	1.03	-4.72	-2.85	-2.63	-0.80	-0.22	-0.34	-0.24	0.01	0.36

Note: All figures in millions of Canadian Dollars unless per share or indicated otherwise.

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