



# Enerplus Corp. (ERF)

Updated February 27<sup>th</sup>, 2019 by Felix Martinez

## Key Metrics

<b>Current Price:</b>	\$4.32	<b>5 Year CAGR Estimate:</b>	11.2%	<b>Market Cap:</b>	\$930 M
<b>Fair Value Price:</b>	\$4.93	<b>5 Year Growth Estimate:</b>	6.6%	<b>Ex-Dividend Date:</b>	02/28/20
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.7%	<b>Dividend Payment Date:</b>	03/16/20
<b>Dividend Yield:</b>	2.5%	<b>5 Year Price Target</b>	\$7	<b>Years Of Dividend Growth:</b>	XX
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	XX.X%

## 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 \$930 million. 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 dividends multiple times in history. Since 2008, the company's dividend per share has been on a decline. Currently, it offers a yield of 2.5%. In 2018, 84% of its production was in the U.S.

Enerplus reported its fourth-quarter results on February 21, 2020. Total production for the quarter exceeded management guidance and a 10% increase from 4Q18. Enerplus recorded a net loss of \$429.1 million in the fourth quarter compared to net income of \$249.3 million in the same period in 2018. The decrease was a result of non-cash goodwill impairment related to the Company's Canadian reporting unit and lower commodity prices. Enerplus' fourth-quarter 2019 Bakken crude oil price differential was \$4.40 per barrel below WTI, compared to \$5.60 per barrel below WTI for the same period in 2018. The company ends the quarter with a total debt net of cash of \$455.0 million, and the company spent \$23.7 million repurchasing 2.7 million shares and paid \$6.7 million in dividends for the quarter.

For the year, Fiscal year (FY)2019, total production increase 8% vs. FY2018. Enerplus had a net loss of \$259.7 million for the year compared to a net income of \$378.3 million in FY2018. Adjusted net income was \$243.2 million, or (29.5)%, compared to \$344.8 million in FY2018. The reduction was primarily due to lower benchmark commodity prices and higher operating expenses in 2019. For FY2020, the company expects average annual production of 98000 BOE/d, which is (2.97)% less than FY2019.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>BVPS</b>	\$16.17	\$13.55	\$11.50	\$7.14	\$8.08	\$3.25	\$4.56	\$4.95	\$6.26	\$4.97	<b>\$7.04</b>	<b>\$9.69</b>
<b>DPS</b>	\$1.62	\$1.62	\$1.15	\$0.81	\$0.81	\$0.48	\$0.12	\$0.09	\$0.09	\$0.11	<b>\$0.11</b>	<b>\$0.11</b>
<b>Shares<sup>1</sup></b>	181.0	181.2	198.7	202.8	206.0	207.0	240.0	242.1	239.4	222.0	<b>215.0</b>	<b>215.0</b>

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 \$8.08 per share as recent as 2014. Should energy prices improve, it may hit \$8 again (or higher) by 2025. The company is estimated to improve cash flow generation over the next few years. Combined with a payout that's about 44% of cash flow, the company can quite quickly grow the dividend by 2025. 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.

1. Shares in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/B	0.5	0.5	0.9	0.4	0.8	1	0.5	0.5	0.8	0.7	<b>0.6</b>	<b>0.70</b>
Avg. Yld.	6.8%	8.6%	12.5%	5.8%	11.0%	14.6%	1.3%	0.9%	1.2%	1.3%	<b>2.5%</b>	<b>1.6%</b>

Enerplus looks reasonably valued at a price to book of about 0.6. 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 most of the future stock price appreciation.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

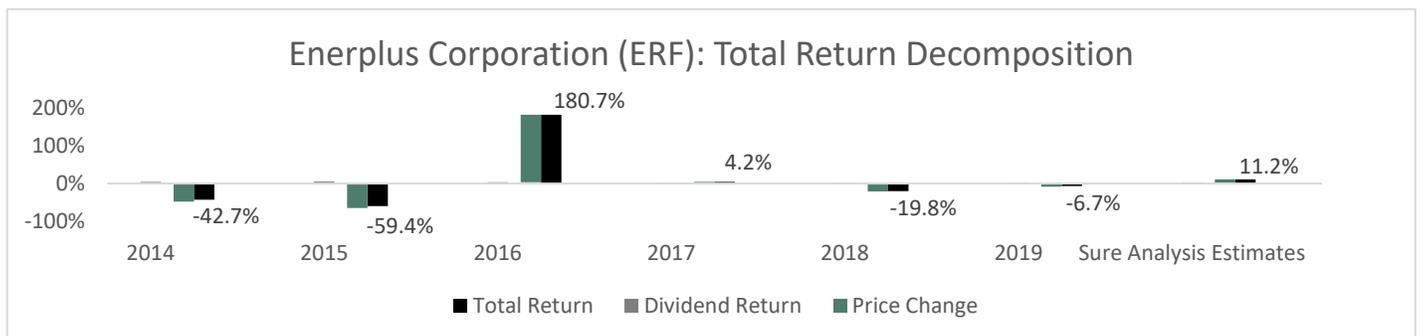
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	N/A	N/A	N/A	255	N/A	N/A	N/A	805%	27.3%	44.1%	<b>44.1%</b>	<b>55.0%</b>

Because dividends are paid from cash flow, we decided to calculate the payout ratio from free cash flow instead of 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 -4.5% per year. At the end of the fourth quarter, Enerplus' debt-to-equity ratio was 35%, while its debt-to-asset ratio was 42%. Its trailing 12-month interest coverage ratio was 20.7x. So, the company's balance sheet isn't over-leveraged. Enerplus has an advantage against most Canadian peers which operate primarily 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. If you plan to trade the stock, wait for a considerable margin of safety. Over the next five years, we estimate total returns of 11.2% in the stock, coming from a current yield of 2.5% and book value per share growth of 6.6% per year. Despite offering potential returns of more than 11.2% per year, we think it's better to seek a more significant margin of safety before buying the stock. So, we rate the security as a hold at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	1287	1172	1154	1313	1382	693	666	881	1243	1185
<b>Gross Profit</b>	788	311	191	297	387	-102	1	237	416	286
<b>Gross Margin</b>	61.2%	26.6%	16.5%	22.6%	28.0%	-14.7%	0.1%	26.9%	33.5%	24.1%
<b>SG&amp;A Exp.</b>	121	96	94	107	95	81	65	57	58	55
<b>Operating Profit</b>	221	216	97	190	292	-183	-64	180	358	231
<b>Operating Margin</b>	17.2%	18.4%	8.4%	14.4%	21.1%	-26.4%	-9.6%	20.4%	28.8%	19.5%
<b>Net Profit</b>	-174	13	-271	47	271	-1194	300	183	292	-196
<b>Net Margin</b>	-13.5%	1.1%	-23.5%	3.5%	19.6%	-172%	45.1%	20.8%	23.5%	-16.5%
<b>Free Cash Flow</b>	-830	-515	-515	-161	-45	-70	-56	3	89	47
<b>Income Tax</b>	-128	-83	-273	38	125	-131	-179	63	80	36

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	5488	5606	3637	3458	3473	1860	1957	2104	2289	1964
<b>Cash &amp; Equivalents</b>	8	6	5	3	2	5	1	276	267	116
<b>Accounts Receivable</b>	126	122	46	34	36	16	25	24	22	29
<b>Goodwill &amp; Int. Ass.</b>	151	152	603	573	538	474	483	508	481	149
<b>Total Liabilities</b>	2160	2396	1676	1643	1558	1213	874	831	820	838
<b>Accounts Payable</b>	351	414	95	108	96	52	59	93	128	142
<b>Long-Term Debt</b>	732	889	1075	963	979	882	570	535	512	464
<b>Shareholder's Equity</b>	3328	3210	1961	1815	1915	647	1083	1273	1469	1127
<b>D/E Ratio</b>	0.22	0.28	0.55	0.53	0.51	1.36	0.53	0.42	0.35	0.41

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	-3.1%	0.2%	-5.9%	1.3%	7.8%	-44.8%	15.7%	9.0%	13.3%	-9.2%
<b>Return on Equity</b>	-4.8%	0.4%	-10.5%	2.5%	14.5%	-93.2%	34.7%	15.5%	21.3%	-15.1%
<b>ROIC</b>	-4.1%	0.3%	-7.6%	1.6%	9.6%	-54.0%	18.9%	10.6%	15.4%	-11.0%
<b>Shares Out.</b>	177.7	179.9	195.6	200.6	204.5	206.2	226.5	247.9	247.3	222.0
<b>Revenue/Share</b>	7.31	6.50	5.90	6.52	6.66	3.36	2.88	3.55	5.03	5.12
<b>FCF/Share</b>	-4.72	-2.85	-2.63	-0.80	-0.22	-0.34	-0.24	0.01	0.36	0.20

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

### Disclaimer

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