

Enerplus Corp. (ERF)

Updated September 30th, 2020 by Felix Martinez

Key Metrics

Current Price:	\$1.81	5 Year CAGR Estimate:	19.4%	Market Cap:	\$403.6 M
Fair Value Price:	\$3.16	5 Year Growth Estimate:	4.5%	Ex-Dividend Date:	09/29/20
% Fair Value:	57%	5 Year Valuation Multiple Estimate:	11.8%	Dividend Payment Date:	10/15/20
Dividend Yield:	5.0%	5 Year Price Target	\$4	Years Of Dividend Growth:	N/A
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	N/A

Overview & Current Events

Enerplus (ERF) trades on the New York Stock Exchange and Toronto Stock Exchange under the tickers, NYSE: ERF and TSX: ERF. All the figures in this report are in dollars. The oil and gas producer was founded in 1986 and had a market capitalization of \$403.6 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 5.0%. In 2018, 84% of its production was in the U.S.

Enerplus reported its second-quarter results on August 7, 2020. The Company saw a loss in net income of \$(455) million for the quarter vs. the \$63 million that was made in 2Q19. For the first six months, the Company has lost \$(452) million compared to a \$77 million profit of the first six months of 2019. The Company recognized a \$319 million non-cash impairment on property, plant, and equipment ("PP&E") and a \$151.6 million non-cash impairment on goodwill due to the continued market volatility and low commodity price environment. If these impairments and non-cash items were not counted, the Company would have an adjusted net loss of \$(30.8) million. Production was 87,360 BOE (Barrels of Oil Equivalent) per day, a decrease of (13)% compared to the same period a year ago, and (11)% lower than the prior quarter. Crude oil and natural gas liquids production for the quarter of was 48,097 barrels per day, a decrease of (9)% compared to the same period a year ago, and (12)% lower than the prior quarter. The lower production was due to the suspension of all operated drilling and completion activity in response to the significant decline in crude oil prices.

The Company reinstated 2020 production guidance of 88,000 to 90,000 BOE per day and 2020 capital spending unchanged at \$224 million.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
BVPS	\$15.67	\$13.14	\$11.15	\$6.92	\$7.84	\$3.15	\$4.42	\$4.80	\$6.07	\$4.82	\$5.27	\$6.57
DPS	\$1.57	\$1.57	\$1.11	\$0.78	\$0.78	\$0.46	\$0.12	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09
Shares¹	181.0	181.2	198.7	202.8	206.0	207.0	240.0	242.1	239.4	222.0	223.0	225.0

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 follow its book value and cash flow more than its earnings. So, we chose to use the book value in the table above for growth and valuation purposes.

Enerplus's book value was \$7.84 per share as recent as 2014. Should energy prices improve, it may hit \$6.57 again (or higher) by 2025. The company is estimated to grow cash flow generation over the next few years. This increase in cash flow should help the company to start increasing its dividends. A more robust 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	0.3	0.60
Avg. Yld.	6.8%	8.6%	12.5%	5.8%	11.0%	14.6%	1.3%	0.9%	1.2%	1.3%	5.0%	2.3%

Enerplus looks undervalued valued at a price to book of about 0.3. We think the multiple will change, 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

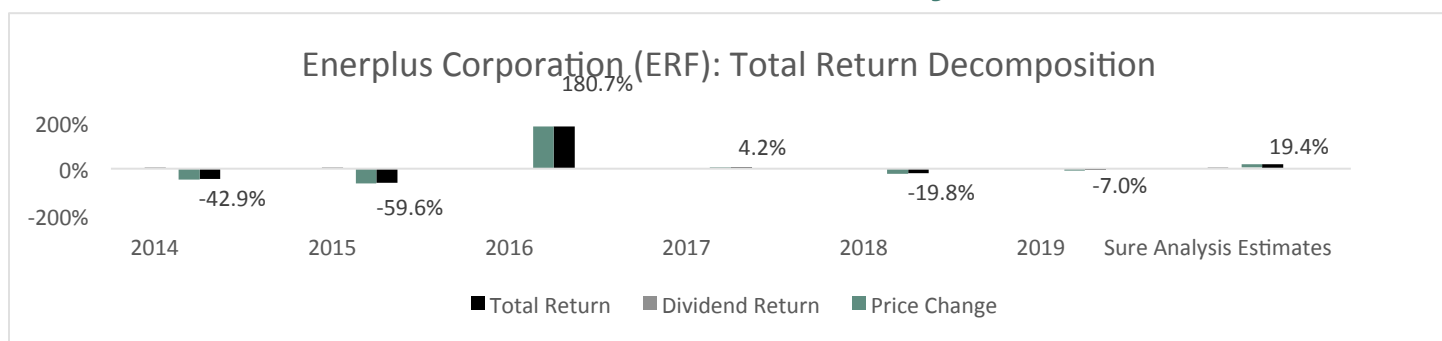
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	N/A	N/A	N/A	255	N/A	N/A	N/A	805%	27.3%	44.1%	N/A	N/A

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's 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 second quarter, Enerplus's debt-to-equity ratio was 0.63, which is lower than what was reported last quarter. The company has a current ratio is 0.5, which is very concerning. 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. However, its high yield is attractive for income investors. A buy-and-hold strategy is not the best way to invest 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 19.4% annually, coming from a current yield of 5.0% and book value per share growth of 4.5% per year. We think it's now a good time to buy shares by offering potential returns of more than 19.4% per year because it provides a margin of safety. Thus, we rate ERF as a speculative Buy.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	5488	5606	3637	3458	3473	1860	1957	2104	2289	1964
Cash & Equivalents	8	6	5	3	2	5	1	276	267	116
Accounts Receivable	126	122	46	34	36	16	25	24	22	29
Goodwill & Int. Ass.	151	152	603	573	538	474	483	508	481	149
Total Liabilities	2160	2396	1676	1643	1558	1213	874	831	820	838
Accounts Payable	351	414	95	108	96	52	59	93	128	142
Long-Term Debt	732	889	1075	963	979	882	570	535	512	464
Shareholder's Equity	3328	3210	1961	1815	1915	647	1083	1273	1469	1127
D/E Ratio	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
Return on Assets	-3.1%	0.2%	-5.9%	1.3%	7.8%	-44.8%	15.7%	9.0%	13.3%	-9.2%
Return on Equity	-4.8%	0.4%	-10.5%	2.5%	14.5%	-93.2%	34.7%	15.5%	21.3%	-15.1%
ROIC	-4.1%	0.3%	-7.6%	1.6%	9.6%	-54.0%	18.9%	10.6%	15.4%	-11.0%
Shares Out.	177.7	179.9	195.6	200.6	204.5	206.2	226.5	247.9	247.3	222.0
Revenue/Share	7.31	6.50	5.90	6.52	6.66	3.36	2.88	3.55	5.03	5.12
FCF/Share	-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.

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