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FINAL TRANSCRIPT

Enerplus Corporation

Second Quarter 2019 Results Conference Call

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Patrick O'Rourke
AltaCorp — Analyst

Mike Dunn
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Jamie Kubik
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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Enerplus Second Quarter 2019 Results Conference Call. At this time, all lines are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require assistance, please press *, 0 for the Operator.

This call is being recorded on Friday, August 9, 2019.

And I would now like to turn the conference over to Drew Mair. Please go ahead.

Drew Mair — Manager, Investor Relations, Enerplus Corporation

Thank you, Operator, and good morning, everyone. Thank you for joining the call. Before we get started, please take note of the advisories located at the end of today's news release. These advisories describe the forward-looking information, non-GAAP information, and oil and gas terms referenced today, as well as the risk factors and assumptions relevant to this discussion.

Our financials have been prepared in accordance with US GAAP. All discussion of production volumes today are on a gross company working interest basis. And all financial figures are in Canadian dollars, unless otherwise specified.

I'm here this morning with Ian Dundas, our President and Chief Executive officer; Jodi Jenson Labrie, Senior VP and Chief Financial Officer; Ray Daniels, Senior VP Operations; Shaina Morihira, VP Finance; and Garth Doll, VP Marketing. Following our discussion, we will open up the call for questions.

With that, I'll turn it over to Ian.

Ian Dundas — President and Chief Executive Officer, Enerplus Corporation

Thanks, Drew. I'll start by diving right into the quarter. As we had indicated with our first quarter results, we anticipated strong volume growth in the second quarter as completions activity was ramping up in the Bakken. And I'm pleased to report that we delivered that volume growth at the high end of our expected range.

Quarter over quarter, our total production was up 14 percent and our liquids production was up 16 percent. Bakken volumes were the primary driver of that growth. They were up 22 percent. We also continued to see capital-efficient productivity from the Marcellus, with volumes up 14 percent from the prior quarter.

As a result of this operational momentum, we're increasing our total production guidance and tightening the range on our liquids guidance. Importantly, we're maintaining our capital discipline. Our tightened capital budget guidance is inside of our original range.

Additionally, we're forecasting lower unit operating and G&A expenses and stronger Bakken differentials, which are supporting the resiliency of our plan.

So to recap our outlook this year, our plan is expected to generate 14 percent liquids production per share growth, double-digit corporate-level returns, return of capital to shareholders with over $115 million returned year to date and plans to continue buying back stock, and we're maintaining our peer-leading balance sheet.

We believe this is a highly competitive outlook, and we continue to see compelling value in our equity at current levels, which we see trading at or near the discounted cash flow value of our producing reserves and little, if any, value ascribed to our high-quality Bakken inventory. As a result, we've been actively buying back stock this year, and continue to see this as an attractive capital allocation decision based on current trading levels.

Our board has approved the repurchase of the full 7 percent authorized under our existing normal course issuer bid, which translates into just under an additional 9 million shares. Once completed, this would represent approximately 24 million shares repurchased since last September, or about 10 percent of our shares outstanding.

I'll leave it there for now and pass the call to Jodi to talk through the financial highlights.

Jodi Jenson Labrie — Senior Vice-President and Chief Financial Officer, Enerplus Corporation

Thanks, Ian. Continued strength in Bakken oil realizations, lower cash costs, and higher production helped drive second quarter adjusted funds flow 10 percent higher compared to the first quarter, despite the reduction in natural gas prices following the exceptional prices we saw during the winter months.

Our second quarter Bakken oil differential was US$3 per barrel under WTI. Given the strength year to date in Bakken pricing, we're revising our full year outlook for our Bakken oil differential to US$3.25 per barrel below WTI from US$4 per barrel previously.

We continue to believe that the Bakken is in an advantageous position in terms of oil takeaway capacity. With significant rail infrastructure and the potential for existing pipeline expansion, as well as new pipelines in the basin, we expect Bakken differentials will remain competitive longer term.

Despite all this, we will continue to manage the risk and volatility through sales and marketing arrangements. We currently have close to 60 percent of our Bakken oil production in the second half of the year tied to fixed physical sales within the basin and the US Gulf Coast, at an average differential of US$2.66 per barrel below WTI.

Moving on to Marcellus pricing. As expected, we saw our realizations weakened from the premium pricing in the first quarter. But with a meaningful portion of our sales tied to the Transco Zone 6 non-New York market, the change in seasonal demand from winter to spring drives lower quarter-over-quarter pricing in this region. Our realized Marcellus differential averaged US$0.57 per Mcf below NYMEX in the second quarter.

We continue to expect our Marcellus differential to remain at these more moderate levels in the third quarter before strengthening again in the fourth quarter on the back of seasonal heating demand. As a result, we widened our full year Marcellus differential guidance modestly to US$0.35 per Mcf below NYMEX from US$0.30 per Mcf previously.

Finally, we've reduced our operating and G&A cost guidance per BOE, which is largely a function of the higher volumes we are forecasting.

Turning to the balance sheet. Our total debt, net of cash, remained largely flat from the prior quarter, and our net debt to adjusted funds flow ratio was maintained at 0.5 times.

As we indicated in this morning's release, we plan to maximize our share repurchases to the full stock exchange-approved limit, which was 7 percent of the Company's public float as of March 19, 2019. As Ian mentioned, upon completion, this would equate to 24 million shares repurchased since September last year, representing approximately 10 percent of shares outstanding.

Our buybacks have meaningfully enhanced per share growth. The midpoint of our 2019 liquids production implies 10 percent year-on-year growth, which translates to 14 percent on a per share basis currently before considering our plans for additional repurchases.

Underpinning our share repurchase plans is our view of the deep value in our stock today, and the flexibility that our strong balance sheet provides to execute the full repurchase.

We think about value from several perspectives, one of which is our ability to acquire an increased interest in our own high-quality reserves at a significant discount to the drill bit or through acquisition. Based on our current trading level, we could buy our producing reserves at about $11 per BOE, and our netback this quarter was over $20 per BOE. That sets up a recycle ratio of almost 2 times on producing reserves, and the cost on a proved plus probable basis is even more attractive.

Lastly, I'd like to highlight a change to our 2020 WTI oil hedges. We took advantage of an opportunity in the market to restructure our 2020 three-way hedges by essentially buying back the sold calls at a very modest cost. This removes the caps on the upside and leaves our downside protection in place.

With that, I'll turn the call over to Ray.

Raymond Daniels — Senior Vice-President, Operations, Enerplus Corporation

Thanks, Jodi. We saw a strong ramp in Bakken volumes in the second quarter, with 26 operated wells brought on production.

Well results are tracking expectations. And with a number of these wells being brought on production at the end of the quarter, including a nine-well pad, we expect another solid build in Bakken production in the third quarter.

We plan to complete and bring approximately eight to nine net wells on production in the Bakken during the third quarter. As our planned activity levels reduce in the fourth quarter, Bakken production is expected to moderate from the high volumes projected in Q3.

Capital spending through the first half of the year was $368 million, or about 60 percent of our full year spend based on our tightened capital spending guidance of 610 million to $630 million. Second half capital spending will be weighted approximately two-thirds to the third quarter, given the moderating activity levels in Q4.

I want to touch briefly on gas processing in the Bakken, as we've had several questions recently on this topic. Gas processing capacity in the basin is reasonably tight. This is not new information. We have had this issue in our sights for quite some time and, therefore, our plans have incorporated these limitations. We continue to be compliant with state gas-capture regulations, and our growth plans take all of this into account.

Additionally, our gas largely goes to a third-party plant, which has very recently undergone a significant expansion. In fact, the expansion has just come online and has more than doubled existing capacity. So we feel good about our outlook in terms of gas processing.

Turning to the Marcellus. We also saw significant growth in the second quarter, due to continued strong well performance from longer lateral wells. The average lateral length of our Marcellus wells this year has been over 7,600 feet compared to 6,500 feet last year.

This outperformance is driving our total annual production forecast higher, with our guidance now 99,000 to 102,000 barrels of oil equivalent per day, 2 percent higher at the midpoint. We've also tightened our liquids production guidance to 54,000 to 55,500 barrels per day with no change to the midpoint.

Part of our normal course portfolio optimization, we divested a modest amount of Canadian production during the quarter, 350 barrels per day for proceeds of about $10 million. Our focus on capital efficiencies is continuing to show results. In the Bakken, our current average total well cost is approximately US$700,000 lower than 2018 levels. This has been a function of lower costs, efficiency improvements, and continuing to optimize completions. Our current average all-in total well cost is about US$7.5 million.

Lastly, we drilled five gross or four net wells in the DJ Basin during the second quarter. Our plan is to complete these wells in the third quarter and bring them on production to coincide with our new pipeline connection to a third-party gas plant, which is expected to be completed later this year.

With that, I'll pass the call back to Ian.

Ian Dundas

Thanks, Ray. So in closing, we remain well positioned to deliver our financial and operational targets.

We're on track for another year of capital-efficient, high-margin growth and strong corporate-level returns. We're also maintaining our significant financial resilience, and believe this provides a competitive advantage in this volatile commodity environment.

Finally, we see the current value of our equity as being discounted relative to our internal view. And therefore, we'll continue to prioritize the acquisition of our stock.

With that, we will turn the call over to the Operator and be available for your questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. If you're using a speakerphone, please lift the handset before pressing any keys.

Your first question is from Neal Dingmann from SunTrust. Please go ahead.

Neal Dingmann — SunTrust

Morning, all. I'm just wondering how do you view the buy—I know you often talk about the buyback program completing before—or sooner rather than later. But I'm wondering, Ian, if the market remains irrational, how you would see that on a sort of go-forward basis versus thinking about acquisitions?

Ian Dundas

Good morning, Neal. It's clearly … stock buyback is clearly a priority right now. We see dislocation in the market that's sort of difficult to understand. And as Jodi highlighted, you compare buying the quality of our reserves at $11 a BOE on a producing basis with anything you can see in the marketplace, and it feels sort of like a no-brainer right now. So, I mean, that's sort of where our focus is.

Acquisitions, how's that all going to play out? I would think something has to break in that market too. It just hasn't yet. And so we do keep our eye on that marketplace. I think our focus probably these days are on smaller things, things that you could very easily tuck in and put on the balance sheet and still keep financially strong. There's such a dislocation out there, though, in that acquisition market with a few high-profile M&A exceptions. Nothing's really happening there because there's such dislocation out there.

Neal Dingmann

Yeah. Make sense. And then just lastly, there's—a couple peers had some takeaway and just line pressure issues. Could you talk about—in the Bakken, that is—could you talk about how your outlook for that looks? Thank you.

Ian Dundas

Sure. Yeah. I'll turn that over to Jodi or Garth, if you want to handle it?

Jodi Jenson Labrie

Yeah. Sure, no. I mean, the plant expansion that we mentioned or that Ray mentioned earlier is significant. It's more than doubling the existing capacity of the plant where we take our gas.

Elsewhere in the basin, there's additional capacity being added later this year and into Q1. So we think this will help alleviate constraints later in the year. But for us, we're pretty happy with the amount of takeaway that we have. And we see this being excess capacity for several years.

Neal Dingmann

Thank you.

Operator

Thank you. Your next question is from Travis Wood from National Bank. Please go ahead.

Travis Wood — National Bank

Yeah. Good morning. As I think Ray touched on it from the infrastructure side, I just wanted to see if you could share what your throughput is on the Little Missouri expansion expected to ramp up to capacity at the end of the year.

Jodi Jenson Labrie

Sure. I mean, I think our current throughput right now is about 40 million cubic feet a day that's going into the Little Missouri. And we think there'll be excess room there once that Little Missouri completes its full ramp.

It just started in—or the beginning of August, actually. And so they're doing a bit of a ramp, but most of that should come on in Q3. So we saw an immediate uptick in the amount of gas going through as of August 1st.

Travis Wood

And are you contracted on a take-or-pay through that plant?

Jodi Jenson Labrie

Yeah. Like our land is dedicated to that plant.

Ian Dundas

It's not a take-or-pay concept, though—

Jodi Jenson Labrie

No.

Ian Dundas

—it's dedication.

Travis Wood

Okay. So the—of the 200 million capacity, what would Enerplus be able to have as throughput?

Jodi Jenson Labrie

So the 200 million in capacity, half of that—that was a joint venture with Hess. And so Targa, that operates the plant, has the other 100 million. And they currently have the 90 million that's currently available or their previous train. So Targa will now have doubled their capacity from 90 million to 190 million.

Travis Wood

Okay. And then last question. Ian, you touched on costs in North Dakota, or maybe it was Ray, down about 700,000 to 750,000. Do you see further opportunity through the second half of the year to get that closer to 700,000?

Ian Dundas

Yeah. I mean, if you look at absolute best-in-class performance that dwells in the middle of summer, we're at those kind of levels. Then winter comes and stuff happens, and so we're trying to give people a really good feel for what's happened over the course of the year. We're on a good run right now, and—but we still have some activity in the winter, which costs more money in heating. So yeah, I mean, the team is exceptionally focused on continuing to look for nickels and dimes.

And drilling performance, it's not as big a ticket item as completion cost is, but we just had a pacesetter well the other day just a squidge over nine days from spud to TD, which is quite exceptional when you think we're moving through a 21,000-foot hole. So yeah, I see opportunities there, Travis.

We don't see external pressures relative to activity picking up any meaningful way. We don't see that stuff going on. So it's really about us and what we're able to do with people and equipment. And it's going pretty well right now.

Travis Wood

Okay. Thanks. Thanks for taking my questions.

Ian Dundas

Thanks, Travis.

Operator

Your next question is from Patrick O'Rourke from AltaCorp. Please go ahead.

Patrick O'Rourke — AltaCorp

Oh, hey, guys. I was actually going to ask on the gas capture there, but you seem to have fairly eloquently answered that. The other thing we were kind of looking at and wondering here in terms of the DJ Basin drilling and completion activity that's going to be coming up, will there be separate horizons tested in that? And what sort of exploration could that potentially—inventory impact to that have?

Ian Dundas

Morning, Patrick. So the DJ, two zones that we think about, Codell and the Niobrara, are existing wells: four in the Codell, one in the Nio, and our new wells, similar kind of split. So I guess the Nio would be the exploratory zone, if you will. It's a big, thick package, and it's a big prize for sure. Generally speaking, in this area it's been a little bit less productive with completion designs that have been tested to date. So I guess, that would be sort of the upside that sits there.

We've highlighted 400 locations, which assumes some contribution from both. If you really want to sort of think about a blue-sky scenario, that Nio package we're sort of landing in one sub-zone, one interval, if you were, and there's actually more that sits there as well. We're not really testing any of that right now. We've got a pretty big opportunity in front of us just with the Codell and one interval in the Niobrara, which is where our focus is at this moment.

Those wells are being completed as we speak, and so we'll have data as we sort of move through the year, which will roll into our plans as we're thinking about what this play looks like in 2020.

Patrick O'Rourke

So when you guys are planning out these pads, like you've done a fairly pragmatic job in the Bakken where you've spaced things out and you haven't densified in any one particular area quite yet. Is that how you're going to approach this play as well as we see it develop?

Ian Dundas

Yeah. I mean, depending where this goes. We've got 35,000 acres. Our activity to date has been focused on sort of a blocky chunk, about a third of that. And sort of delineation cost optimization activities are focused in that area. And our infrastructure build-outs are happening directly in that area. That's where pipe's being laid and tie-ups are occurring.

So yeah, I think you could see a similar kind of pattern to the thing. We do have a—

Patrick O'Rourke

Okay.

Ian Dundas

—one of the differences here is how the Nio sort of unfolds. We sort of think about the Bakken and Three Forks—at least operationally, we think about those as sort of singular unit. That—I'm not sure how we'll think about this one; still some uncertainty there.

Patrick O'Rourke

Okay. Thanks.

Operator

Thank you. Your next question is from Mike Dunn at GMP FirstEnergy. Please go ahead.

Mike Dunn — GMP FirstEnergy

Thanks. Ian, just wondering if you have any comments on how you're viewing 2020, I guess, rate of liquids growth relative to how you may have been thinking about it three months ago or so, given changes in commodities and investor sentiment? Thanks.

Ian Dundas

Three months ago, I mean, that's eternity. That's not fair. So for those who maybe aren't familiar, we're in the sort of early stages of a three-year plan anchored on delivers 10 percent liquids growth. That plan was based on some principles around financial resiliency, strong economics, and being able to deliver sort of an attractive total return proposition to shareholders.

So all of those conditions exist, really. Oil's still over 50 and our economics are still looking good. And the singular difference—and so that's still our plan. That's still our plan. It made sense when we did it, and I think it still does.

You step back, though, and your nature of question is, in part, what the heck's going on in the marketplace? And so when we rolled that plan out, we weren't anticipating that we would be as aggressive on share buybacks as we are. And so, I think it would be foolish not to continue to think about the marketplace and to think about alternative capital allocation choices.

So I think our plan right now still makes a lot of sense. It makes operational sense. It's attractive growth. And we can afford it. As we think about budgets for next year, could it evolve? Sure, it could evolve. But right now, I think it's still something that's pretty attractive.

Mike Dunn

Okay. Thanks, Ian. That's all for me.

Ian Dundas

Thank you.

Operator

Thank you. Ladies and gentlemen, as a reminder should you have any questions, please press *, 1.

The next question is from Jamie Kubik from CIBC. Please go ahead.

Jamie Kubik — CIBC

Yeah. Good morning, guys. Just a quick question on your Marcellus assets here. I mean, output during the quarter was well above historical levels, and fully appreciate that Enerplus is non-op in that asset. But what are your thoughts on where output is at here versus where gas prices are currently sitting? Thanks.

Ian Dundas

Sorry, versus where they're sitting, are you asking about curtailments or our capital spending? Or what's the—help me out there, Jamie.

Jamie Kubik

Yeah. I mean, just with respect to gas prices are fairly weak for NYMEX, are there any curtailments planned? Or how you think about output going forward in that asset?

Ian Dundas

Yes. So the growth in that asset this year has been more than we would have anticipated. But it's not a function of more spending, right? It's been a very modest capital program by many levels, and it just keeps delivering well results that are exceeding everyone's expectations out there.

So as a general rule, you're seeing all the operators in that core … the core area, including our partner—our primary partner—spend modest levels. It's a modest program. So I don't see that changing. I don't see anyone spending more money.

Do I see peoples curtailing? I guess we'll see where the cash market goes. I mean, that's always a possibility. If the cash market went to that sub-dollar level, we've sort of seen that historically. That's not what we're anticipating. We think we're sort of in the lower levels right now of that demand dynamic, and prices aren't as good as they were, but they're still a heck of a lot better than they were.

I'd say, broadly speaking as well, there are some minimum levels and producers—this wouldn't be our situation—but other producers would have some meaningful demand commitments or transport commitments that sort of put some floors on how they think about their volume commitments. So we don't see it now.

Could things change? Sure. That's always a possibility, but that's not what we see. And in fact, we see some possible real strength as we come sort of into the winter months.

Jamie Kubik

Okay. Great. Another quick question for me here. You guys had a pretty decent tax recovery in Q2 to the tune of about 14 million bucks. Are you expecting any further revisions on this front through the balance of the year that could impact cash flow?

Jodi Jenson Labrie

No. That was actually due to a former dispute in Canada that was resolved favourably for us. So that was kind of a nice benefit in the quarter for us, but we don’t expect that going forward.

Jamie Kubik

Okay. That’s it for me. Thanks, guys.

Jodi Jenson Labrie

Yeah. Sorry. And—sorry, and just one last thing, I guess. We do still have a small AMT refund that’ll come through in Q4, but that should be small and accounted for.

Jamie Kubik

Okay. Thank you.

Operator

Thank you. There are no further questions. You may proceed.

Ian Dundas

All right. Well, thank you, everyone. Appreciate everyone’s time today. Hope people can enjoy the last little bits of summer before it’s game on again.

Thank you. Have a good day. Bye.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and we ask that you please disconnect your lines.