

Haskayne Finance Club: Equity Research Presentation



Enerplus Corp.

(NYSE, TSX: ERF)

Stock Rating: Buy
Industry Rating: Outperform

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Calgary, Alberta

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Company Overview

Enerplus Corporation (Enerplus) engages in the exploration and development of crude oil and natural gas in the United States and Canada. The company's oil and natural gas properties are located primarily in North Dakota, Montana, Colorado, and Pennsylvania; and Alberta, British Columbia, and Saskatchewan. Enerplus Corporation was founded in 1986 and is headquartered in Calgary, Canada.

Competitive Advantage & Growth Prospects

Enerplus has a strong portfolio of oil & natural gas assets, large reserves and continues to improve efficiency in its operations. The company has large drilling inventory across all three of its core areas. Enerplus has observed encouraging results directly offsetting its lightly drilled Dunn County acreage and intends to develop this region to deliver in the near future, bringing on more low-cost Bakken Production.

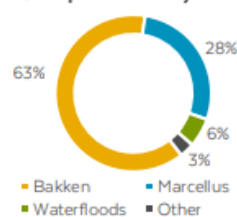
Valuation

The valuation methods used were Net Asset Value and Comparable Company Analysis. Enerplus currently trades below Net Asset Value which is a significant indication that the company's shares are undervalued. Enerplus is also undervalued relative to its peers in terms of EV/NTM EBITDA and EV/2P multiples. The company has significant reserves in the Bakken oil play as well as strategic assets in Marcellus basin and mature oil properties in Western Canada.

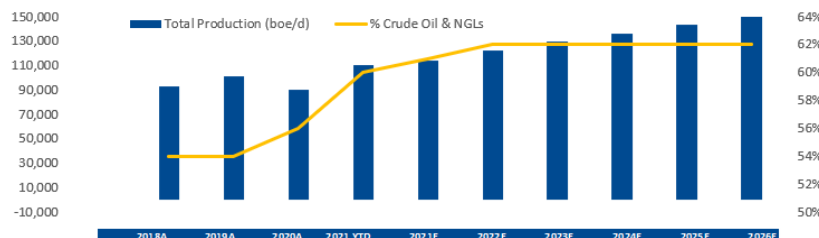
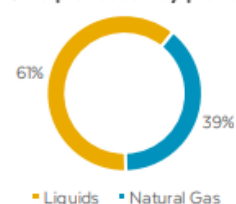
Recommendation

The HFC Energy Team recommends Enerplus Corp. as a Buy due to the company's ability to generate free cash flow, strong management & commitment to ESG, robust operations and growth prospects in the Bakken Region. The company has also iterated that it plans to return a significant portion of free cash flow to shareholders through buybacks and dividend increases.

2021e production by area



2021e production by product



Target Price	
Figures in \$CAD	
Implied Net Asset Value Price Target	\$14.29
Weight	70.00%
EV/EBITDA Trading Multiple Target	\$12.47
Weight	30.00%
Implied Share Price	\$13.74



Presented by: Joel Homersham, Lauren Dang, Aleisha Liesemer

Agenda

1

Recommendation

1. Investment Thesis
2. Investment Decision

2

Company Overview & Analysis

1. Company Overview
2. ESG Performance
3. Core Areas, Business Model, Operations Forecast

3

Industry Overview

1. Industry Outlook
2. Core Area Outlook

4

Valuation

1. Comparable Company Analysis
2. Net Asset Value & Weighted Valuation

5

Investment Thesis Fit

1. Investment Thesis Fit

Recommendation

Investment Thesis

- Free Cash Flow Generative Business
- Seasoned Management & Commitment to ESG
- Strong Operational Results
- Growth Prospects

Investment Decision

Action	BUY
Current Price	\$12.39
Target Price	\$13.74
Implied Return	10.89%

Company Overview

Company Highlights

- **History:** Enerplus Corporation (Enerplus) engages in the exploration and development of crude oil and natural gas in the United States and Canada. The company's oil and natural gas properties are located primarily in North Dakota, Montana, Colorado, and Pennsylvania; and Alberta, British Columbia, and Saskatchewan. Enerplus Corporation was founded in 1986 and is headquartered in Calgary, Canada.
- **Stock Performance:** With a YTD of 223.32% return, Enerplus has vastly outperformed industry peers. The TSX has returned 24.87% for the same period. The chart shows that ERF has returned more to shareholders but remains more volatile with a beta of 3.47. Enerplus recently announced an 8% increase to its quarterly dividend to \$0.041 per share.
- **Strategy:** Enerplus focuses on creating long-term value for shareholders through a disciplined, returns-based capital allocation strategy and a commitment to safe and responsible operations.

Recent Corporate Finance Activity

- **Acquisitions:** Enerplus has been focused on acquiring core properties in the Williston Basin. The company recently purchased a pure play Williston Basin company, Bruin E&P on March 10, 2021, for US\$465 Million. Enerplus also purchased Williston Basin assets from Hess Corp for US\$312 Million.
- **Divestitures:** Enerplus sold its interests in its Sleeping Giant (Montana) and Russian Creek (North Dakota) acreages for total consideration of US\$115 Million. Enerplus will receive up to an additional US\$ 5 Million should WTI average over US\$65 in 2022 and US\$60 in 2023.

Valuation & Share Performance

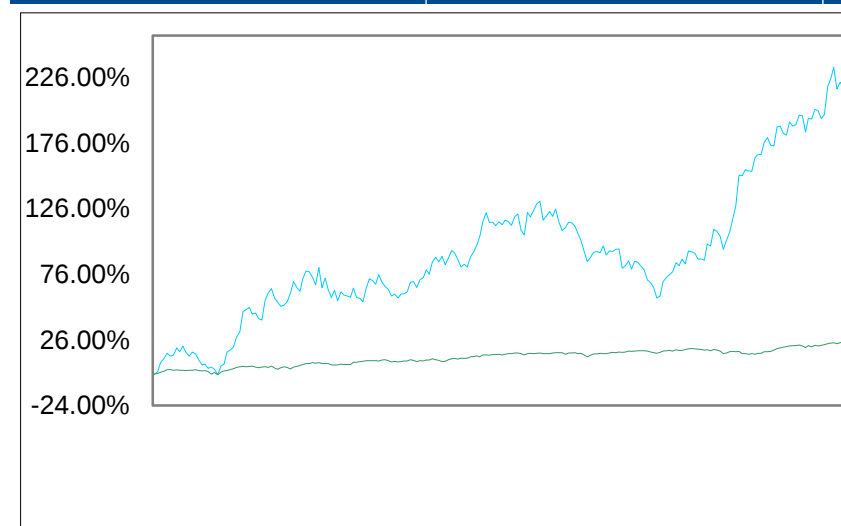
Key Valuation Statistics

Enterprise Value	\$4.32B		
Market Cap	\$3.24B	EBITDA (2021E)	\$927.94MM
EV/2P*	10.18x	Capital Budget (2021E)	\$380MM
EV/EBITDA*	3.86x	EPS (Nov 4, 2021)	\$2.11
Cash	\$54.1MM	Total Debt	\$301.8MM

*ASSUMPTIONS: Proved+ Probable, EBITDA is 2021E

Share Price

Current: \$12.39



1

Company Analysis

2

Industry Overview

3

Valuation

4

Thesis

ESG Performance

Environment

- Enerplus has recently achieved their 2020 target for reducing greenhouse gas emissions, reducing their emissions intensity by 24%, while also implementing a reduction target of 50% for 2030.
- Enerplus has also developed a short-term target to reduce their corporate methane emissions intensity by 20% by the end of 2022.
- Also, a participant of the Environmental Partnership's Flare Management Program, which helps to reduce Enerplus' Scope 1 emissions intensity.

Social

- Enerplus values diversity and ensuring inclusion, with 44% of its board comprising of female directors and 36% of its overall workplace being women.
- In 2020, Enerplus developed a strategy to enhance community engagement planning, especially in terms of providing safety education and support.
- Enerplus has also contributed \$346,000 in support of their communities through donations and sponsorships in 2020.

Governance

- Enerplus' governance initiatives including invoice audits, evolution of SCM guidelines, and the review of contract templates.
- Enerplus' board culture consists of codified review processes in the Corporate Governance & Nominating Committee's charter and work plan and annual board effectiveness evaluations.

ESG Focus Areas



1

Company Analysis

2

Industry Overview

3

Valuation

4

Thesis

Land Position and Core Areas



Williston Basin Update

- As a result of its recent acquisitions, Enerplus has increased its Bakken acreage position by 3.5x to a total of 238,000 net acres.
- The company has identified 340 economic drilling locations with 111 of these locations on recently acquired Bruin lands.
- The company also added ~30,000 boe/d in recent Williston acquisitions and forecasts >10 years of tier 1 drilling inventory in the region.

Marcellus Update

- Enerplus has 32,600 net acres of non-operated land in the Marcellus dry gas core in NE Pennsylvania.
- The region has proved to be a consistent Free Cash Flow generative property given its capital efficiency and highly productive well performance.

Canadian Waterfloods Update

- Enerplus owns mature oil properties in the WCSB but has been more focused on its more robust US operations.

1

Company Analysis

2

Industry Overview

3

Valuation

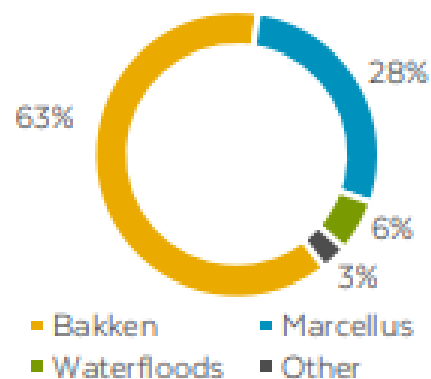
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Thesis

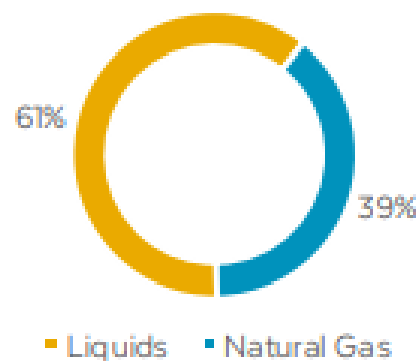
Business Model & Growth Prospects

Production by Region & Product

2021e production by area



2021e production by product



Reserves

Proved: 302.5 MMBOE

Proved + Probable: 424.4

Overarching Competitive Advantage: Enerplus has a strong portfolio of oil & natural gas assets, large reserves and continues to improve efficiency in its operations. Due to exceptional management, the company is poised to generate free cash flow and shareholder returns.

Operational and Financial Highlights

Williston Basin Growth Prospects: Enerplus' has recently observed encouraging well results directly offsetting its lightly developed southern acreage in Dunn County, North Dakota. Operators such as ConocoPhillips, Continental Resources and Marathon Oil have recently completed wells producing ~700boe/d. The company intends to further develop this region in the near future.

Strong Well Performance at Lower Costs: Since 2018, Enerplus has been able to reduce its well costs by 34% in the Williston Basin while keeping well production in line with historical averages. The company has also improved its drilling days by 16% since 2018 in the Williston Basin.

Strong Capital Allocation Framework: Enerplus is focused on disciplined growth while maximizing free cash flow and shareholder returns. The company plans to continue to reinforce its balance sheet with a portion of free cash flow and repurchase shares to unlock additional shareholder value.

1

Company Analysis

2

Industry Overview

3

Valuation

4

Thesis

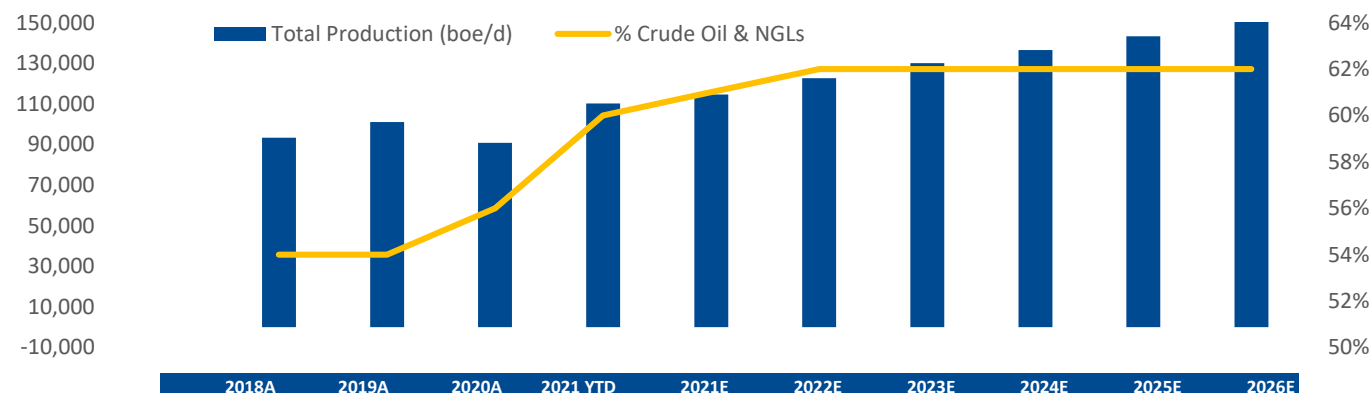
Operations Forecast

Production Forecast

	2018A	2019A	2020A	2021 YTD	2021E	2022E	2023E	2024E	2025E	2026E
Production by Product										
Crude Oil (mmbbl/d)	45,424	49,704	45,421	57,393	60,262	64,481	68,994	73,824	78,992	84,521
Natural Gas Liquids (mmbbl/d)	4,486	4,929	5,633	9,024	9,024	9,205	9,389	9,577	9,768	9,964
Natural Gas (MMcf/d)	259,837	278,451	237,857	262,449	262,449	280,820	300,477	321,511	344,017	368,098
Total Production (boe/d)	93,216	101,042	90,687	110,159	114,565	122,585	129,940	136,437	143,258	150,421
% Crude Oil & NGLs	54%	54%	56%	60%	61%	62%	62%	62%	62%	62%

Increase in Oil Weighted Production

- Enerplus has outlined its focus on developing its core oil properties in the Williston Basin.
- Enerplus' Williston Basin production is sold for the smallest discount to WTI of all its core areas leaving the company in position to benefit from attractive commodity prices in the medium term.
- The company expects ~3-6% annual production increases through 2026



1

Company Analysis

2

Industry Overview

3

Valuation

4

Thesis

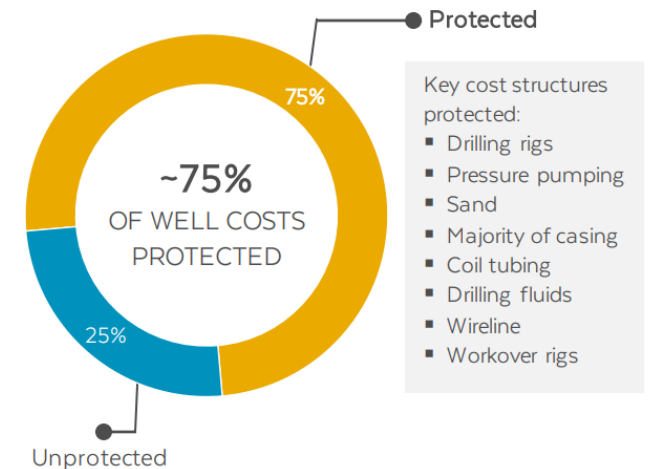
Industry Overview

Industry Outlook

- OPEC+ remains committed to modest production increases and has recently called for output caution as oil surplus grows
- Goldman Sachs expects oil demand will reach pre-pandemic levels near the end of 2021
- Oilfield labour shortage alongside industry capital discipline has allowed for an attractive North-American commodity price environment. WTI and North American Natural Gas prices sit at multiyear highs.
- Post COP26, global energy policy has increasingly shifted away from fossil fuel use and development.
- Investor sentiment and increasing renewable energy investment serve as risks to oil & gas industry growth prospects.

Core Area Outlook

- Protests from Indigenous and Environmental groups surrounding the Dakota Access Pipeline serve as a large risk to Enerplus.
- As of November 16, 2021, North Dakota rig count sits at 34 up 12 from August 2021. Historical highs for the region are ~65 active rigs.
- Enerplus expects drilling & completions costs to increase by 5% through 2022. The company projects ~75% of its well costs are protected from inflation.



1

Company Overview

2

Industry Overview

3

Valuation

4

Thesis

Valuation (Comps)

Comparable Company Rationale

- The companies chosen below are have significant production in the Bakken region and or similar production (boe/d) output and oil weight.
- Enerplus is trading slightly below the mean of its comparables on an EV/NTM EBITDA Basis and is significantly undervalued on an EV/2P basis.
- Enerplus is most comparable to Whiting Petroleum Corporation (NYSE: WLL) because of its overall size, core areas, trading multiples.

	Market Data			Trading Multiples		
2021-11-18						
Company	Price	Market Cap	Enterprise Value	EV/TTM EBITDA	EV/NTM EBITDA	EV/2P
<i>figures in thousands of \$CAD, except multiples</i>						
Baytex Energy Corp. (TSX:BTE)	\$4.05	2,307.6	3,848.9	0.9x	4.11x	10.06x
Vermilion Energy Inc. (TSX:VET)	\$12.27	1,996.3	3,823.7	11.4x	3.42x	13.18x
Crescent Point Energy Corp. (TSX:CPG)	\$5.83	3,365.4	5,697.8	1.5x	3.13x	8.56x
Whitecap Resources Inc. (TSX:WCP)	\$7.14	4,512.9	5,759.4	2.2x	3.11x	11.35x
Hess Corporation (NYSE:HES)	\$102.02	31,402.5	40,800.8	9.1x	7.41x	34.87x
Whiting Petroleum Corporation (NYSE:WLL)	\$87.39	3,419.8	3,520.2	9.5x	3.22x	11.34x
Continental Resources, Inc. (NYSE:CLR)	\$59.70	21,468.3	27,080.8	6.0x	4.13x	16.93x
Enerplus Corporation (TSX:ERF)	\$12.39	3,156.7	4,243.1	9.4x	3.63x	10.00x
Summary Statistics						
Mean	\$36.35	8,953.69	11,846.84	6.3x	4.02x	14.54x
Median	\$12.33	3,392.6	4,970.45	7.6x	3.53x	11.35x

1

Company Overview

2

Industry Overview

3

Valuation

4

Thesis

Valuation (Intrinsic)

Valuation Commentary

- We elected to weight our valuation more heavily (70%) on the NAV Valuation as it better represents the overall value of the company and its assets.

NAV Assumptions & Commentary

- Discount rate used was: 10%
- Commodity Price assumptions were based off company guidance in accordance with hedging
- Long-term production decline rate of 5% was used
- Proved + Probable reserves were used in NAV valuation

Current: \$12.39		High Estimate: \$17.94		Low Estimate: \$12.47	
EV/EBITDA Trading Multiple		Summary of NAV Valuation		Target Price	
<i>Figures in thousands of \$CAD, except multiples</i>		<i>Figures in thousands of \$CAD</i>		<i>Figures in \$CAD</i>	
EV/EBITDA	3.68x	Implied Net Asset Value	3,887,832	Implied Net Asset Value Price Target	\$14.29
EBITDA 2021E	930,420	Less: Debt	301,770	Weight	70.00%
		Add: Cash	54,100	EV/EBITDA Trading Multiple Target	\$12.47
Implied Enterprise Value	3,423,946	Market Value of Equity	3,640,162	Weight	30.00%
Less: Debt	301,770	/Shares Outstanding	254,780		
Add: Cash	54,100			Implied Share Price	\$13.74
Market Value of Equity	3,176,276	Implied Share Price	\$14.29		
/Shares Outstanding	254,780				
Implied Share Price	\$12.47				



Investment Thesis Fit

Free Cash Flow Generation

- Enerplus generated \$176MM of free cash flow in Q3 of 2021 and estimates to generate ~\$540MM of free cash flow for FY2021.
- The company expects to generate cumulative free cash flow of \$2B through 2025.
- Enerplus' conservative yet effective capital budget will allow the company to reward shareholders while increasing annual production.

Season Management Team & Commitment to ESG

- Enerplus has an experienced management with a track record of delivering shareholder returns and upholding ESG commitments.

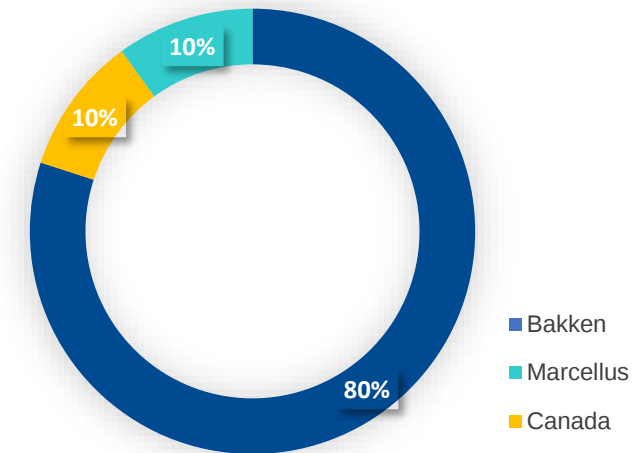
Strong Operational Results

- Subject to commodity price shocks, Enerplus has a history of annual production increases and cost reductions across all its core areas.
- The company's streamlined operations have been a driver of strong financial performance.

Growth Prospects

- Following the Hess Corp. acquisition, the company has a large drilling inventory in Dunn County, North Dakota. Enerplus' operational expertise will allow the company to expand its low-cost Bakken production.

Capital Expenditures by Region



Hess Corp. Acquisition Highlights



78,700 net acres



\$312 million US



62.7 MMBOE 2P Reserves

1

Company Overview

2

Industry Overview

3

Valuation

4

Thesis