

# Action Note

Equity Research

April 30, 2020

Energy Producers - Junior &amp; Intermediate

## Whitecap Resources Inc.

(WCP-T) C\$1.84

**Q1/20 Beat; Capex/Cost Reductions; Shut-in Prod.; Divi Unchanged**

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### Event

Whitecap announces Q1/20 results.

### Impact: POSITIVE

**Q1/20 production of 73.5 mBOE/d was slightly above our estimate of 72.6 mBOE/d and prior guidance of 72.0-73.0 mBOE/d; CFPS of \$0.32 was meaningfully higher than our estimate of \$0.27 and consensus of \$0.29.** The CFPS beat was driven by higher hedging gains, lower opex, lower transportation, and lower royalties.

**2020 capex reduced further to \$190mm (from \$200-210mm) as current supply/demand fundamentals continue to constrain industry spending, noting that a significant portion of this capital (73%) has already been spent during Q1/20.** Whitecap is also targeting total operating cost reductions of \$42mm and G&A reductions of \$8mm during 2020 to further enhance the payout ratio.

**2020 production guidance is adjusted to 65.0-67.0 mBOE/d (from 67-68 mBOE/d) to reflect 2.0 mBOE/d of production that is uneconomic at current prices and therefore shut-in.** Although the remaining production currently generates positive operating income at current prices, Whitecap is prepared to shut-in more production should the fundamentals change.

**Monthly dividend is maintained at \$0.01425/share, which equates to an annualized capital outlay of \$70mm.** We had recently forecast a significant dividend reduction with Q1/20 results, however, Whitecap confirmed its commitment to the current outlay, which is now more reasonable given the cost reductions.

**Whitecap's balance sheet remains healthy, in our view, and we forecast > \$600mm in liquidity as at year-end 2020 (on our price deck). While 2020 net debt/cash flow looks elevated at 4.7x, we highlight that this drops to 3.5x in 2021E in a more 'normalized' commodity price environment.** We emphasize that Whitecap's \$1.2bn bank line is not based on reserves, and as such, not subject to negative pressure from lower commodity prices and the potential for shrinking PDP reserves. The covenants are a maximum debt/EBITDA ratio of 4.0x and a minimum EBITDA/interest ratio of 3.5x, and we see no risk of tripping these covenants through our forecast period of 2021.

### TD Investment Conclusion

Our estimates increase as a result of the cost reductions while the all-in payout ratio this year now comes in at a very reasonable 104% including the current dividend. Our target increases to \$2.50 (from \$2.00) and we remain BUY-rated.



### Company Profile

Whitecap Resources Inc. is engaged in the acquisition, development, and production of oil and natural gas in the Western Canadian Sedimentary Basin, with a bias to light oil prospects.

<b>Recommendation:</b>	<b>BUY</b>
<b>Risk:</b>	<b>HIGH</b>
<b>12-Month Target Price:</b>	<b>C\$2.50↑</b> Prior: C\$2.00
<b>12-Month Dividend (Est.):</b>	<b>C\$0.17</b>
<b>12-Month Total Return:</b>	<b>45.2%</b>

### Market Data (C\$)

Current Price	C\$1.84
52-Week Range	\$0.73 - \$5.71
Mkt Cap (f.d.) (\$mm)	\$750.7
Mkt Cap (basic) (\$mm)	\$750.7
Float Cap (\$mm)	\$660.6
Current Dividend	\$0.17
Dividend Yield	9.3%
Avg. Daily Trading Vol.	8,986,601

### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	408.0
Shares O/S (basic) (mm)	408.0
Float Shares (mm)	359.0
Net Debt (\$mm)	\$1,276.1
Net Debt/Total Cap	62.1%
NAVPS	\$1.85

### Estimates (C\$)

Year	2018A	2019A	2020E	2021E
CFPS (f.d)	1.67	1.64	0.65	0.87
CFPS (f.d) (old)	-	-	0.48	0.84
Oil & NGLs (mb/d)	62.9	59.9	56.2	55.0
Gas (MMcfd)	69.0	66.8	59.3	56.1
MBOE/d	74.4	71.0	66.0	64.4

### CFPS (f.d) Quarterly Estimates (C\$)

Year	2018A	2019A	2020E	2021E
Q1	0.39	0.39	0.32	0.18
Q2	0.47	0.42	0.07	0.20
Q3	0.49	0.37	0.09	0.23
Q4	0.33	0.45	0.17	0.26

### Valuations

Year	2018A	2019A	2020E	2021E
EV/DACF	4.1x	4.1x	6.3x	4.9x
P/NAV MG	-	99.5%	-	-

### Supplemental Data

Year	2018A	2019A	2020E	2021E
WTI (US\$/bbl)	64.83	57.03	30.00	40.00
H. Hub (US\$/mcf)	3.13	2.56	2.15	2.70
AECO (C\$/mcf)	1.53	1.79	1.95	2.60
FX (US\$/C\$)	0.77	0.75	0.72	0.73

All figures in C\$, unless otherwise specified

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## Exhibit 1. Q1/20 Summary

Production	Q1/20A	Q1/20E	Variance	Netbacks (\$/BOE)	Q1/20A	Q1/20E	Variance
Oil (bbl/d)	56,631	56,538	0.2%	Gross Revenue	39.52	41.13	-3.9%
NGLs (bbl/d)	5,077	4,656	9.0%	Hedging Gains (Losses)	2.96	0.64	359.1%
Natural Gas (mcf/d)	70,466	68,613	2.7%	Royalties	(5.84)	(6.38)	-8.5%
<b>Corporate (BOE/d)</b>	<b>73,452</b>	<b>72,630</b>	<b>1.1%</b>	Transportation Costs	(2.33)	(2.40)	-2.9%
% Liquids	84%	84%		Operating Costs	(12.20)	(13.00)	-6.1%
<b>Financial</b>				<b>Operating Netback</b>	<b>22.11</b>	<b>20.00</b>	<b>10.5%</b>
Cash Flow (\$mm)	131.8	111.7	18.0%	General & Administrative	(0.90)	(0.99)	-9.8%
CFPS (fd)	0.32	0.27	18.3%	Interest Expense	(1.86)	(1.88)	-1.4%
E&D Capex (\$mm)	138.8	160.0	-13.3%	Cash Taxes/Other	0.36	(0.23)	nmf
Total Capex (\$mm)	157.0	176.2	-10.9%	<b>Cash Netback</b>	<b>19.71</b>	<b>16.90</b>	<b>16.6%</b>
Net Debt (\$mm)	1,271.0	1,295.0	-1.9%				

Source: Company reports, TD Securities Inc. estimates

## Outlook

We have updated our estimates to incorporate updated guidance along with additional minor adjustments to our forecast. We are also no longer forecasting a dividend cut through our forecast period.

## Exhibit 2. Estimate Revisions

Production	Q2/20E			2020E			2021E		
	Revised	Previous	Variance	Revised	Previous	Variance	Revised	Previous	Variance
Oil (bbl/d)	52,924	54,517	-2.9%	52,178	52,548	-0.7%	51,391	50,880	1.0%
NGLs (bbl/d)	3,804	4,438	-14.3%	3,979	4,335	-8.2%	3,646	4,159	-12.3%
Natural Gas (mcf/d)	58,522	65,404	-10.5%	59,312	63,881	-7.2%	56,089	61,286	-8.5%
<b>Corporate (BOE/d)</b>	<b>66,481</b>	<b>69,856</b>	<b>-4.8%</b>	<b>66,042</b>	<b>67,530</b>	<b>-2.2%</b>	<b>64,385</b>	<b>65,253</b>	<b>-1.3%</b>
% Liquids	85%	84%		85%	84%		85%	84%	
<b>Financial</b>									
Cash Flow (\$mm)	27.6	(12.3)	nmf	266.0	197.6	34.6%	356.6	344.7	3.4%
DACF (\$mm)	40.4	0.8	4676.1%	316.8	249.4	27.0%	407.7	395.4	3.1%
CFPS (fd)	0.07	(0.03)	nmf	0.65	0.48	35.1%	0.87	0.84	3.8%
E&D Capex (\$mm)	13.0	13.0	0.0%	190.0	205.0	-7.3%	285.0	285.0	0.0%
Total Capex (\$mm)	13.0	13.0	0.0%	208.2	221.2	-5.9%	285.0	285.0	0.0%
Net Debt (\$mm)	1,276.1	1,329.6	-4.0%	1,247.1	1,271.4	-1.9%	1,254.3	1,227.6	2.2%
% Undrawn Credit	49%	39%		52%	44%		51%	48%	
<b>Netbacks (\$/BOE)</b>									
Gross Revenue	7.02	7.31	-3.9%	24.34	24.61	-1.1%	39.96	39.59	0.9%
Hedging Gains (Losses)	16.71	10.62	57.3%	8.23	6.02	36.6%	(0.09)	0.14	-162.3%
Royalties	(1.09)	(1.13)	-3.9%	(3.69)	(3.81)	-3.2%	(6.39)	(6.34)	0.9%
Transportation Costs	(2.40)	(2.40)	0.0%	(2.38)	(2.40)	-0.8%	(2.40)	(2.40)	0.0%
Operating Costs	(12.20)	(13.00)	-6.2%	(12.20)	(13.00)	-6.1%	(12.20)	(13.00)	-6.2%
<b>Operating Netback</b>	<b>8.04</b>	<b>1.40</b>	<b>474.2%</b>	<b>14.29</b>	<b>11.41</b>	<b>25.2%</b>	<b>18.88</b>	<b>18.00</b>	<b>4.9%</b>
General & Administrative	(0.70)	(1.03)	-31.9%	(0.79)	(1.08)	-27.4%	(0.85)	(1.14)	-25.5%
Interest Expense	(2.12)	(2.06)	2.7%	(2.10)	(2.09)	0.4%	(2.17)	(2.13)	2.2%
Cash Taxes/Other	(0.66)	(0.24)	-	(0.40)	(0.24)	-	(0.68)	(0.25)	-
<b>Cash Netback</b>	<b>4.56</b>	<b>(1.93)</b>	<b>nmf</b>	<b>11.00</b>	<b>8.00</b>	<b>37.6%</b>	<b>15.17</b>	<b>14.47</b>	<b>4.8%</b>

Source: Company reports, TD Securities Inc. estimates

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## Valuation

Whitecap is currently trading at a  $P/NAV_{MG}$  of 100% and an EV/2020E DCF multiple of 6.3x; these compare with averages of 102% and 5.0x, respectively, for the >60% oil-weighted production (2020E) peer group under coverage. In our view, Whitecap deserves to trade at a premium to the group due to the underlying asset quality and relatively conservative payout profile.

### Exhibit 3. Relative Valuation

	P/NAV <sub>BD</sub>	P/NAV <sub>MG</sub> <sup>***</sup>	EV/DACF*		EV/BOEPD	P/CF	D/CF	Payout**	% Gas
			(2020E)	(2021E)	(2020E)	(2020E)	(2020E)	(2020E)	(2020E)
<b>WCP</b>	<b>100%</b>	<b>100%</b>	<b>6.3x</b>	<b>4.9x</b>	<b>\$30,251</b>	<b>2.8x</b>	<b>4.7x</b>	<b>104%</b>	<b>15%</b>
BNE	328%	328%	19.7x	8.0x	\$36,089	16.0x	117.2x	964%	33%
BTE	-	16%	8.6x	4.8x	\$27,158	2.3x	12.9x	167%	19%
CPG	109%	109%	6.2x	6.1x	\$31,495	2.2x	5.1x	120%	10%
SGY	91%	88%	8.9x	6.0x	\$28,068	3.4x	15.2x	190%	16%
TOG	66%	57%	10.0x	4.2x	\$32,068	4.9x	7.9x	206%	12%
TVE	50%	49%	3.5x	2.6x	\$17,158	1.9x	2.0x	103%	37%
VII	69%	68%	4.1x	3.4x	\$16,761	1.5x	3.6x	105%	42%
WCP	100%	100%	6.3x	4.9x	\$30,251	2.8x	4.7x	104%	15%
<b>Average Oil-Weighted</b>	<b>115%</b>	<b>102%</b>	<b>5.0x</b>	<b>5.5x</b>	<b>\$27,048</b>	<b>3.5x</b>	<b>16.1x</b>	<b>198%</b>	<b>25%</b>

\*EV based on forecast year-end net debt and shares outstanding, \*\*Payout = (Capex+Dividend-DRIP)/CF.

\*\*\*Our modified growth NAV (NAV<sub>MG</sub>), assumes free cash flow (i.e. after 2P FDC, interest, G&A and dividends) is reinvested in company specific internal development opportunities for up to a five year period.

Source: Company reports, TD Securities Inc. estimates

## Justification of Target Price

Our \$2.50 target price is based on a 6.0x 2021E EV/DACF multiple (50% weighting) and 1.0x our NAV<sub>MG</sub> of \$1.85/share (50% weighting).

## Key Risks to Target Price

Key risks associated with our target price include business risks of the company and industry, including, but not limited to: loss of key employees; drilling success; volatile commodity prices and operating costs; capital cost overruns; product supply and demand; government regulations and taxes; exchange rates; interest rates; environment and weather concerns; unfavourable tax legislation. Company specific risks include 1) High financial leverage with 2020E D/CF >3.0x and 2) There is no guarantee that current bank credit facilities will be renewed at current levels or that undrawn credit capacity will be available to repay other creditors in the future.

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### Exhibit 4. Summary

Company Overview					Key Valuation Ratios				
	2018A	2019A	2020E	2021E	2018A	2019A	2020E	2021E	
Market Capitalization (\$mm)	\$751				P/CF (x)	1.1x	1.1x	2.8x	2.1x
Net Debt (\$mm)	\$1,276				EV/DACF (x)	4.1x	4.1x	6.3x	4.9x
Enterprise Value (\$mm)	\$2,027				EV/Production (\$000/BOE/d)	\$41.7	\$41.5	\$30.3	\$31.1
Current Price	\$1.84				EV/1P Reserves (\$/BOE)	\$8.77	\$8.31	\$5.63	\$5.65
52 Week Low/High	\$0.73	\$5.71			EV/2P Reserves (\$/BOE)	\$6.20	\$6.02	\$4.08	\$4.10
Current Yield	9.3%				P/NAV (2P)		100%		
					P/NAV (Modified Growth)		100%		
					ROCE	2%	-4%	-101%	2%
Production					Leverage				
	2018A	2019A	2020E	2021E	2018A	2019A	2020E	2021E	
Oil (bbl/d)	58,511	55,413	52,178	51,391	Bank Debt (\$mm)	\$661	\$582	\$565	\$573
NGLs (bbl/d)	4,397	4,503	3,979	3,646	Term Debt (\$mm)	\$595	\$595	\$595	\$595
Total Liquids (bbl/d)	62,908	59,916	56,157	55,037	Net Debt (\$mm)	\$1,300	\$1,193	\$1,247	\$1,254
Natural Gas (mcf/d)	69,042	66,802	59,312	56,089	Net Debt-CF (x)	1.8x	1.8x	4.7x	3.5x
<b>Total Production (BOE/d)</b>	<b>74,415</b>	<b>71,050</b>	<b>66,042</b>	<b>64,385</b>	Credit Facility (\$mm)	\$1,105	\$1,175	\$1,175	\$1,175
% Gas	15%	16%	15%	15%	% Drawn	60%	49%	48%	49%
Production Hedged (%)	-	-	40%	4%	Dividend PoR (%) (Pre-DRIP)	19%	20%	33%	20%
					Dividend PoR (%) (Post-DRIP)	19%	20%	33%	20%
Growth					Cash Flow Summary (\$mm)				
	2018A	2019A	2020E	2021E	2018A	2019A	2020E	2021E	
Y/Y Production Growth	64%	-5%	-7%	-3%	<b>Funds Flow from Operations</b>	\$704	\$676	\$266	\$357
Y/Y Production Per Share Growth	7%	-3%	-6%	-2%	Debt-Adjusted Cash Flow	\$757	\$723	\$317	\$408
Y/Y DAPPS Growth	10%	-23%	-29%	-16%	<b>Investing Activities</b>				
					Exploration and Development	(\$440)	(\$404)	(\$190)	(\$285)
					Acquisitions/Divestitures	(\$78)	(\$3)	(\$18)	\$0
					<b>Total Capital Expenditures</b>	(\$518)	(\$407)	(\$208)	(\$285)
					<b>Financing Activities</b>				
					Net Change in Debt	(\$29)	(\$79)	(\$16)	\$7
					Dividends	(\$132)	(\$138)	(\$87)	(\$70)
					DRIP	\$0	\$0	\$0	\$0
					Other / Share Issue Proceeds	(\$42)	(\$30)	(\$11)	\$0
					<b>EBITDA</b>	<b>\$633</b>	<b>\$331</b>	<b>(\$2,476)</b>	<b>\$402</b>
Pricing Assumptions					CFPS (diluted)				
	2018A	2019A	2020E	2021E	2018A	2019A	2020E	2021E	
WTI (US\$/bbl)	\$64.83	\$57.03	\$30.00	\$40.00	Q1	\$0.39	\$0.39	\$0.32	\$0.18
Edmonton Par (C\$/bbl)	\$69.14	\$69.06	\$29.75	\$48.00	Q2	\$0.47	\$0.42	\$0.07	\$0.20
WCS (C\$/bbl)	\$49.90	\$58.12	\$19.50	\$34.25	Q3	\$0.49	\$0.37	\$0.09	\$0.23
Nymex (US\$/mcf)	\$3.13	\$2.56	\$2.15	\$2.70	Q4	\$0.33	\$0.45	\$0.17	\$0.26
AECO (C\$/mcf)	\$1.53	\$1.79	\$1.95	\$2.60	Annual	\$1.67	\$1.64	\$0.65	\$0.87
Exchange Rate (US\$/C\$)	\$0.77	\$0.75	\$0.72	\$0.73					
Corporate Netback (\$/BOE)					Quarterly Production (BOE/d)				
	2018A	2019A	2020E	2021E	2018A	2019A	2020E	2021E	
Revenue	\$55.78	\$54.93	\$24.34	\$39.96	Q1	73,120	70,666	73,452	63,488
Hedging	(\$2.36)	(\$0.77)	\$8.23	(\$0.09)	Q2	75,813	70,612	66,481	63,133
Royalties	(\$9.87)	(\$9.79)	(\$3.69)	(\$6.39)	Q3	75,529	68,255	63,573	64,693
Transportation	(\$2.17)	(\$2.26)	(\$2.38)	(\$2.40)	Q4	73,185	74,651	60,746	66,192
Operating	(\$12.05)	(\$12.38)	(\$12.20)	(\$12.20)	Annual	74,415	71,050	66,042	64,385
<b>Operating Netback</b>	<b>\$29.34</b>	<b>\$29.74</b>	<b>\$14.29</b>	<b>\$18.88</b>					
G&A	(\$1.10)	(\$0.96)	(\$0.79)	(\$0.85)					
Interest Expense	(\$1.94)	(\$1.85)	(\$2.10)	(\$2.17)					
Cash Taxes and Other	(\$0.36)	(\$0.88)	(\$0.40)	(\$0.68)					
<b>Cash Flow Netback</b>	<b>\$25.93</b>	<b>\$26.05</b>	<b>\$11.00</b>	<b>\$15.17</b>					
Per Share Metrics									
	2018A	2019A	2020E	2021E					
WA Outstanding Shares (diluted)	420.6	412.0	408.2	408.0					
CFPS (diluted)	\$1.67	\$1.64	\$0.65	\$0.87					
EPS (diluted)	\$0.15	(\$0.38)	(\$5.35)	\$0.08					
2P NAV		\$1.85							
Modified Growth NAV		\$1.85							

Source: Company reports, TD Securities Inc. estimates

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### TD Securities Equity Research Disclosures

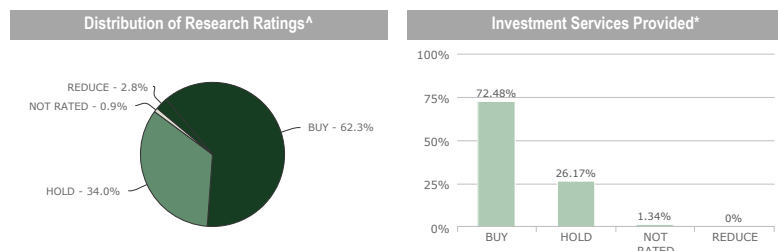
Company	Ticker	Disclosures
Whitecap Resources Inc.	WCP-T	2, 4, 9

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Current as of: April 30, 2020

<sup>^</sup> Percentage of subject companies under each rating category: BUY (covering ACTION LIST BUY, BUY and SPECULATIVE BUY ratings), HOLD, and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD, and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

### Definition of Research Ratings

**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15% (with higher thresholds for less liquid, more risky securities) over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 10% (with higher thresholds for less liquid, more risky securities) over the next 12 months.

**SPECULATIVE BUY:** The stock's total return is expected to exceed a minimum of 30% over the next 12 months (with higher thresholds for less liquid securities); however, there is material event risk associated with the investment that could result in a significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 10%, (with higher thresholds for less liquid, more risky securities) over the next 12 months.

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**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**SUSPENDED:** Due to evolving circumstances, we can no longer generate what we consider a defensible target price and rating at the current time.

**UNDER REVIEW:** Our rating is under review pending additional information and/or analysis. The prior rating should not be relied on.

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## Equity Research

April 30, 2020

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