Amplify Energy: 4Q 2018 Earnings Script

March 6, 2019 / 10am CT

Operator

Welcome to the Amplify Energy Fourth Quarter 2018 Investor Conference Call. Amplify's operating and financial results were released earlier today and are available on Amplify's website at www.amplifyenergy.com. During this presentation, all participants will be in a listen-only mode. Today's call is being recorded. A replay of the call will be accessible until Wednesday, March 20th by dialing 855-859-2056 and then entering conference ID #5469647 or by visiting Amplify's website, www.amplifyenergy.com.

I would now like to turn the conference over to Martyn Willsher, Senior Vice President and Chief Financial Officer of Amplify Energy Corp…

Martyn Willsher

Good morning and welcome to the Amplify Energy conference call to discuss operating and financial results for the fourth quarter 2018. We appreciate you joining us today. Ken Mariani, Amplify's President and Chief Executive Officer, will begin the call by updating our stakeholders on the company's strategic progress and operating results, and I will follow with an update on our financial results.

First, we would like to remind you that some of our remarks may contain forward-looking statements and are based on certain assumptions and expectations of Amplify's management team. These remarks reflect management's current views with regard to future events and are subject to various risks, uncertainties and assumptions. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct and undertakes no obligation and does not intend to update these forward-looking statements to reflect events or circumstances occurring after this earnings call. Forward-looking statements include, but are not limited to, our statements about and discussion of, first quarter and full-year 2019 guidance. Please refer to our press release and SEC filings for a list of factors that may cause actual results to differ materially from those in the forward-looking statements made during this call. In addition, the unaudited financial information that will be highlighted here is derived from our internal financial books, records, and reports. For additional detailed disclosure, we encourage you to read our Annual Report on Form 10-K, which we expect to file later today.

Also, non-GAAP financial measures may be disclosed during this call. Reconciliations of those measures to comparable GAAP measures may be found in our press release or on our website at www.amplifyenergy.com.

With this in mind, I will now turn the call over to Ken Mariani. Ken…

Ken Mariani

Introduction

Thank you, Martyn. I appreciate our stakeholders joining us today. My remarks on this call will provide an update on our return of capital to shareholders, our operational performance in the fourth quarter, year-end 2018 proved reserves and our initial guidance for 2019.

Strategic Progress

During the last few months, the Amplify team has made great progress across multiple fronts to position the company for a transformative year in 2019.

As mentioned on the last earnings call, we believe that maintaining capital discipline and returning capital to shareholders will be key components of our go-forward strategy. To that end, in the fourth quarter, Amplify completed a $35 million repurchase of stock through a tender offer process. At a purchase price of $12.00 per share, Amplify repurchased and retired approximately 2.9 million shares. Subsequent to the closing of the tender offer, Amplify's Board of Directors authorized a share repurchase program of up to $25 million with repurchases to begin on or after January 9, 2019.

As of February 28, 2019, Amplify has repurchased approximately 43,000 shares at a weighted-average price of $8.63 per share for total consideration of approximately $400,000. We will continue to execute this program to repurchase stock as market conditions allow, and will consider additional returns of capital to shareholders later in the year as our 2019 plan takes shape.

Operations

Our assets continued to perform in line with expectations during the fourth quarter as we generated $32.4 million of Adjusted EBITDA, which was within our guidance range of $31 to $37 million.

Production for the fourth quarter averaged approximately 143 MMcfe per day, a reduction of 6% from the previous quarter, but above the midpoint of our quarterly guidance. This anticipated quarter over quarter decrease was driven primarily by natural production declines and our maintenance turnaround at the Beta Field.

Lease operating expenses in the fourth quarter were $29.8 million, or $2.27 per Mcfe, which was in the range of our guidance expectations. We anticipated higher LOE in the fourth quarter primarily due to increased workover activity on our Beta properties. We have a backlog of high rate of return workover projects at Beta, with some additional wells being impacted by the turnaround in the fourth quarter. As a result, we exited the year below expected production rates in the Beta Field, but we anticipate that production will steadily increase throughout the first half of 2019 as we work through the backlog of projects. To accelerate the return to production of the subject offline wells, a second workover crew was added in Beta during the fourth quarter.

Capital spending for the fourth quarter was approximately $10.2 million, compared to $7.5 million in the third quarter of 2018, and at the lower end of our guidance range. The bulk of the capital spending was on longer lead-time items for our Bairoil expansion project and related engineering work. The previously announced $37 million Bairoil expansion project remains on schedule and within budget and is expected to be operational in the fourth quarter of 2019. As a reminder, the Bairoil expansion will allow us to bring currently shut-in wells back online, and increase our oil production by approximately 900 Boe/d over the subsequent eighteen months. The remaining capital spend was divided between Eagle Ford non-op drilling activities along with facilities and workover projects across our asset base.

2018 Year-End Proved Reserves

Earlier today we announced Amplify's year-end proved reserves of approximately 140 MMBoe based on flat SEC pricing for crude oil of $65.56 / bbl and natural gas pricing of $3.10 / MMBtu. The reserve mix for our proved reserves was allocated approximately 50% crude oil, 15% natural gas liquids and 35% natural gas. Approximately 78% of the proved reserves were classified as proved developed, and the SEC PV-10 for our proved reserves was $1.1 billion.

In an attempt to more accurately reflect our reserve value based on the current long-term price decks of oil and natural gas, Amplify published an alternative reserve valuation using flat crude oil and natural gas pricing of $55.00 / Bbl and $2.75 / MMBtu. This long-term pricing case results in a proved developed PV-10 of $590 million and a total proved PV-10 of $743 million. For perspective, our long-term pricing case proved developed PV-10 is $198 million, or 50%, higher than our current enterprise value of approximately $392 million. This difference in valuation is approximately $9 per share based on approximately 22.1 million shares outstanding. Keep in mind that this excludes any additional value from Amplify's proved undeveloped locations, which have an incremental PV-10 value of approximately $152 million. Moving on to our 2019 guidance…

2019 Guidance

Earlier today we issued our initial guidance expectations for 2019, including forecasts for production, capex and free cash flow. Amplify's 2019 guidance and future financial reporting will be on a barrels of oil equivalent or "BOE" basis. With an increasing percentage of liquids-based production, and our current emphasis on liquids-related projects, we believe this reporting methodology is appropriate going forward.

In regards to our 2019 guidance, we are forecasting full year production of 21,200 to 23,500 Boe/d in 2019, down from 2018 production of 25,400 Boe/d. This forecast includes the impact of the sale of our South Texas assets in 2018, and the deliberate decision in mid-year 2018 to defer drilling on our East Texas properties. We anticipate production increasing with the completion of our Bairoil plant expansion project in the fourth quarter of 2019 and are continuing to look at additional projects to add scale and further leverage our operational platform.

Our initial capital forecast for 2019 is $55 to $65 million, with approximately 56% of the capital spending on our Bairoil plant expansion. We anticipate spending approximately 20% of our capital budget on the development of our non-operated Eagle Ford properties. The remainder of our budget will be allocated to capital workover and facilities projects across our portfolio. While this initial budget does not include a capital allocation for drilling at our Beta or East Texas properties, we are continuing to evaluate these opportunities and may supplement our capital budget later in 2019.

Free cash flow, which we define as Adjusted EBITDA, less capex and cash interest expense, is expected to be in the range of $15 to $27 million in 2019. Management and the Board will contemplate the best uses for our 2019 free cash flow, which may include funding additional development opportunities, further reducing our debt and / or returning capital to shareholders.

Outlook

As I look forward to 2019, I am excited about Amplify's prospects. Our balance sheet remains strong with a debt to 2018 EBITDA ratio of 1.8x, current liquidity of over $150 million and the expectation of generating approximately $20 million of free cash flow in 2019. We have a robust portfolio of producing assets and internal growth opportunities as evidenced by our year-end reserve valuation. Importantly, we also have the optionality and capability to pursue external growth targets that are accretive to our platform. With the support of our Board and our employees, I believe that 2019 will be a transformative year for Amplify, which will lead to a meaningful increase in shareholder value.

With that in mind, I would like to turn the call over to Martyn to discuss our financial results…

Martyn Willsher

Thank you, Ken.

Financial Results

I'd like to start by discussing our financial results for the quarter, followed by additional details on our liquidity, hedge position and initial guidance for the first quarter and full year 2019.

Starting with our fourth quarter results, Net Cash from Operating Activities was $25.2 million, which was lower than our third quarter result of $32.3 million. This decline was primarily because of lower Adjusted EBITDA for the quarter and working capital adjustments due to reduced activity levels.

Adjusted EBITDA for the fourth quarter was $32.4 million, which was slightly below the midpoint of the guidance range of $31 to $37 million. This result was due to lower than expected liquids production and pricing, along with additional operating costs primarily associated with our second rig crew in California.

G&A in the fourth quarter was $7.4 million, which included $1.1 million of non-cash compensation expenses plus the reversal of $0.6 million of previously recorded divestiture expenses. Excluding these one-time expenses, cash G&A was $6.9 million for the fourth quarter and in line with our expectations. For the full year 2018, our cash G&A was $31 million after adjusting for certain one-time payments made during the year. Going forward, we expect cash G&A of approximately $6 million in the first quarter 2019 declining to approximately $5.7 million per quarter for the remainder of 2019. Comparing year-over-year, our full year 2019 cash G&A forecast of approximately $23 million is a reduction of more than 25% from our adjusted full year 2018 cash G&A of $31 million. We continue to keep close control of our G&A expenses, and will look for further reductions in future periods.

Free Cash Flow, which again we define as Adjusted EBITDA less cash interest expense and capital expenditures, was $18 million for the fourth quarter, and within the guidance range of $16 to $22 million.

As of March 1st, Amplify's borrowing base on its revolving credit facility was $425 million, with $270 million outstanding. Liquidity was $186 million, consisting of $33 million of cash on hand and available borrowing capacity of $153 million (which includes the impact of $1.65 million in outstanding letters of credit).

Moving on to our current hedge position…

Hedging

Since our last earnings call, Amplify has been steadily adding to our hedge portfolio. Our new hedge positions reflect a slightly different strategy than previously implemented and are a combination of swaps, costless collars and deferred puts. We believe that this hedge strategy will protect our downside risk while preserving some upside exposure for the future. As of March 1st, our current hedge mark-to-market value was a net liability position of $4.5 million and based on our 2019 guidance midpoint of 22,400 Boe/d we have hedged approximately 76% of 2019 production. Amplify's hedge presentation has additional details on our current positions and was posted on our website earlier today under the investor relations section.

Guidance

We issued our initial first quarter and full year 2019 guidance earlier today with full year 2019 production forecasted at 21,200 to 23,500 Boe/d, capex of approximately $55 to $65 million and free cash flow of $15 to $27 million. In addition, we announced full year LOE of $13.00 to $15.00 per Boe, which is up from 2018 full year LOE of $11.80 per Boe. This increase is primarily due to declining production and an increase in expected workover projects in our Beta field. As previously mentioned, G&A continues to trend lower and is expected to be $2.70 to $3.00 per Boe. Finally, our Adjusted EBITDA forecast for full year 2019 is $90 to $102 million, which is lower than 2018 primarily due to lower production coupled with lower hedge and commodity pricing. Due to our liquidity and free cash flow position, we have numerous internal options to increase Adjusted EBITDA in 2019 and beyond, as well as the ability to look at market options for growing our production profile.

I will now turn the call back over to Ken for closing remarks.

Ken Mariani

Thank you, Martyn. In closing, I want to thank our employees for making 2018 a great year here at Amplify. I have now been here for almost a year and am confident that we are in a position to build a stronger, more efficient company in 2019, while also meaningfully increasing shareholder value.

This concludes our prepared remarks. Thank you for joining us today and as always, please don't hesitate to reach out to us with any questions.