Amplify Energy: 3Q 2018 Earnings Script
November 7, 2018 / 10am CT

Operator

Welcome to the Amplify Energy Third 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, November 21st by dialing 855-859-2056 and then entering conference ID #9465818 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 third 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 direction 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, fourth quarter and full-year 2018 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 Quarterly Report on Form 10-Q, 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 strategic progress over the last quarter, as well as our operational performance in the third quarter.

Strategic Progress

Since our last earnings call, the Amplify leadership team has been working hard to finalize certain key initiatives, conclude our internal asset review and prepare a go-forward strategy for our Board and stakeholders.

The first key initiative finalized during the third quarter was the release of $61.5 million in cash from our Beta decommissioning trust account. This cash release was made pursuant to an order of the U.S. Bankruptcy Court, which allowed for the release subject to certain conditions that have since been satisfied. Following the cash release, Beta's decommissioning obligations remain fully supported by A-rated surety bonds and $90 million of cash. This $61.5

million in cash has been added to our balance sheet, and provides us with significant liquidity to fund future projects.

Another key initiative we are excited to announce is the refinancing of Amplify's revolving credit facility. Our new credit facility is led by Bank of Montreal, as administrative agent, and has an initial borrowing base of $425 million. The additional liquidity, cost savings and flexibility provided by this new facility will be extremely important to us as we pursue our go-forward strategy.

Another important strategic milestone during the quarter was the decision to invest $37 million to increase oil production by approximately 900 Boe/d at the Company's Bairoil field in the Rockies. The increase in production will be made possible by expanding CO_2 recycling capacity at the facility by approximately 60 MMcf/d, which will allow the Company to bring currently shut-in wells back online. Amplify's investment in the Bairoil expansion is expected to generate in excess of $50 million of incremental PV10 value, with rates of return of approximately 30% assuming $60 flat WTI prices. The Company expects that the expanded facility will be completed and operational by the fourth quarter 2019. The Company also anticipates drilling 4 additional wells in 2019 with projected returns of approximately 30% assuming $60 flat WTI prices. We believe that there are numerous additional opportunities on these properties, with 59 drilling locations already identified and supported by a recent 3D seismic survey.

In addition, Amplify is currently participating in 10 additional gross (0.5 net) wells in the Eagle Ford with initial production from the wells expected in the first quarter of 2019. We anticipate that results from these wells will be in line with previous wells drilled this year that had rates of return in excess of 100%. Amplify's Eagle Ford production during the third quarter averaged approximately 1,500 Boe/d, and we expect production to increase more than 1,000 Boe/d at these wells' peak rates.

Operations

The Company's assets continued to perform in line with expectations during the third quarter as we generated $39.7 million of Adjusted EBITDA, which was above the midpoint of our guidance range of $36 to $42 million.

Production for the third quarter averaged approximately 152 MMcfe per day, a reduction of 10% from the previous quarter, but in line with quarterly guidance. This anticipated quarter over quarter decrease was driven primarily by the second quarter sale of our South Texas properties, natural production declines and our annual scheduled maintenance turnaround at the Bairoil Field, which shut-in production for approximately 10 days. Additionally, in early October the Company initiated a 6-day scheduled maintenance turnaround in the Beta Field, which will impact fourth quarter production. Both of these turnarounds were completed successfully, and production has since returned to anticipated levels reflected in previously issued guidance.

Lease operating expenses in the third quarter were $27.5 million or $1.96 per Mcfe. This result reflects a per unit increase of 10% from the previous quarter and was in line with our guidance expectations. LOE per Mcfe was expected to trend upward following the second quarter primarily due to reduced production volumes. We expect LOE to increase again in the fourth quarter, primarily due to an increase in workover activity on our Beta properties. We currently have a backlog of high rate of return workover projects in that area and recently hired a second rig crew to expedite bringing those wells back on production. Due to timing impacts, we anticipate that these activities will primarily increase our production outlook going into 2019 instead of the fourth quarter of 2018. However, hiring an additional rig crew now will also enable us to drill wells earlier if we decide to begin a drilling program at Beta in 2019. Due to these changes, we now expect fourth quarter LOE to be in the range of $2.15 - $2.35 per Mcfe and our full year 2018 LOE to be in the range of $1.86 - $2.06 per Mcfe.

Capital spending for the third quarter was approximately $7.5 million, compared to $23 million in the second quarter of 2018, and within the guidance range. The bulk of the capital spend was associated with facilities and workover projects in East Texas and the annual turnaround in the Rockies. Capital spending for the remainder of the year is forecasted to be $10 to $12 million for the Bairoil Plant Expansion and increased Eagle Ford activity.

Outlook

Following an exciting quarter for Amplify, our balance sheet has never looked stronger. Our net debt to Trailing Twelve Month EBITDA metric is now 1.3x, we have liquidity of more than $200 million and forecasted fourth quarter free cash flow is $16 to $22 million. With all of these positive developments and a strong base of producing assets, the Company now has significant flexibility to execute on our future strategic initiatives. The management team, in coordination with our Board of Directors, is currently evaluating the best use of our liquidity and free cash flow and will consider funding additional investment opportunities in offshore California and the Rockies, further reducing our debt and executing on a plan to return capital to shareholders. We look forward to communicating additional details on our strategic decisions to our shareholders in the coming months.

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 new credit facility, liquidity, hedge position and updated guidance for the year.

Net Cash from Operating Activities was $32.3 million for the third quarter, which was reduced from the second quarter of $42.1 million. This decline was primarily due to lower Adjusted EBITDA for the quarter and some working capital adjustments due to the reduced activity level.

Adjusted EBITDA for the third quarter was $39.7 million, which was above the midpoint of the guidance range of $36 to $42 million. This strong result was due to better than anticipated production levels from our gas-weighted properties and more favorable realized commodity pricing.

G&A in the third quarter was $8.2 million, which included $1.6 million of non-cash compensation expenses plus the reversal of $0.2 million of severance costs. Excluding the one-time expenses, cash G&A was $6.8 million for the third quarter and in line with our expectations. This run rate is expected to continue in future periods and we are extremely pleased to achieve a reduction of more than 25% from 2017 levels or approximately $9 million on an annualized basis. We will continue our focus on G&A in future periods.

Free Cash Flow, which we define as Adjusted EBITDA less cash interest expense and capital expenditures, was $28 million for the quarter, and within the guidance range of $25 million to $31 million. These proceeds were used to pay down our revolver and enhance liquidity.

Closing of the New Revolving Credit Facility

As Ken mentioned, on November 2nd, we closed a new credit facility with Bank of Montreal, as administrative agent, and a syndicate of lenders for a new senior secured reserve-based revolving credit facility with an initial borrowing base of $425 million. BMO Capital Markets, Bank of America Merrill Lynch, Citibank, Regions Bank and U.S. Bank are the joint lead arrangers for the new credit facility.

The new credit facility matures in November 2023, and will be redetermined on a semi-annual basis, with the first redetermination expected on April 1, 2019. This new credit facility increases Amplify's liquidity by $35 million and reduces interest expense by approximately $2 to $3 million per year. Additional benefits of the new credit facility include additional flexibility for hedging, and the ability to utilize second lien and unsecured debt in our capital structure if needed. In addition, we now have the optionality to return capital through share buybacks or dividends if it is in the best interests of our shareholders.

As of November 5th, Amplify's borrowing base on its revolving credit facility was $425 million, with $294 million outstanding. Liquidity was $202 million, consisting of $73 million of cash on hand and available borrowing capacity of $129 million (which includes the impact of $2.4 million in outstanding letters of credit).

Moving on to our current hedge position…

Hedging

Amplify has not executed any additional hedges since our most recent hedge update on August 8th, and our current hedge mark-to-market was a net liability position of $23 million as of November 5th. With the completion of our new credit facility, we now intend to hedge additional volumes before year-end in a manner that is consistent with our strategy of focusing on our oil weighted properties. We also intend to shift from a swaps-only hedge portfolio to a mixture of swaps, costless collars and deferred puts, which will allow us to maintain additional upside while limiting our downside. Amplify's hedge presentation with our current positions was posted on our website today under the investor relations section.

Guidance

Our fourth quarter and revised full year guidance issued earlier today reflects the development projects we have initiated at Bairoil and Beta over the last quarter. Full year capex has been increased by approximately $7 million at the midpoint, and we have increased LOE for the fourth quarter for the additional rig crew and workover projects in Beta field. Despite the LOE increases, we are still projecting $164 million of Adjusted EBITDA as our guidance midpoint for the full year, and fourth quarter free cash flow is expected to be $16 to $22 million despite the increase in capital spending.

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

Ken Mariani

Thank you, Martyn. The third quarter was a great success for Amplify, with a significant increase of more than $100 million in liquidity since our last earnings call on August 8th, as well as solid operational results and exciting new development opportunities. As mentioned previously, we believe we are now in a strong financial position to execute on our go-forward plans and will continue to update our stakeholders on our progress.

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.