Lightstream (LTS) – When The Market Freaks Out, Rejoice

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Lightstream (which I've covered in-depth here and here) reported results last week (here). Included in those results was a downward revision to 2014 production volume, from 44k boe / d to 42k boe / d. The market did not take too kindly to the Company's lower forecast, sending the stock down 10%.

But the market isn't paying attention to the right things. And investors that know better should rejoice because acquiring ownership in LTS just became a lot cheaper. It's a mantra that needs to be hung on every investor's wall:

When the market freaks out and you know better, rejoice.

To the informed investors of Lightstream, this is what matters:

- Sustainability should get to 100% or better this year.
- Base decline continues to meet plans and will come in at 26% - 29% for the full year.
- Debt is down to $1.89BN.
- On Swan Hills – the problem area that sent forecasted production volume lower – the wells are still good oil wells. 7 wells are collectively producing 1,450 boe / d instead of 2,000 boe / d. Management noticed the deviation from expectations and immediately pushed pause to figure out why. This is what every prudent business owner should do.

What's interesting – and a point the market has clearly ignored – is that funds flow (operating cash flow after interest expense) is still expected to meet guidance. **I repeat: there was no change to projected cash flow.**

Looking at the Company's new guidance, FCF is expected to be $85MM – $165MM. To get to sustainability, take out the approx. $95MM in 2014 dividends. The midpoint implies $30MM in cash buildup – that's after CapEx, interest and all dividends. This means that the market's biggest concern about Lightstream – the sustainability of their business model – is no longer a concern. **The inflection point of sustainability has arrived. And that is what matters.**

Informed investors, repeat after me: When the market freaks out, rejoice.