



Could BlackPearl Resources Be a True Multi-Bagger?

Description

A multi-bagger is a term to describe a stock that returns your investment many times over.

Stronger fundamentals in the energy patch including higher oil and gas prices, along with narrowing price differentials between Canadian crude blends and West Texas Intermediate has created renewed interest in the industry.

This is seeing an influx of capital as investors seek to take advantage of the improved operating environment, which is fuelling renewed investment in oil juniors.

A range of juniors have been already able to cash in on this renewed interest. **Whitecap Resources** ([TSX: WCP](#)) acquired a range of light oil assets earlier this year and **Athabasca Oil Corp** ([TSX: ATH](#)) received a \$1.23 billion payday from **PetroChina** (NYSE: PTR) for the sale of its Dover oil sands assets.

But one junior with massive potential is **BlackPearl Resources** (TSX: PXX), which is the owner of the Blackrod SAGD project in Alberta.

This has attracted the attention of analysts, with some calling BlackPearl a multi-bagger, which has the potential to see the stock triple in value.

Let's take a closer look to see whether BlackPearl truly could be a multi-bagger with tremendous potential upside.

What are BlackPearl's assets?

BlackPearl's oil assets are made up of three core properties: Onion Lake, Mooney, and Blackrod. Currently it is Onion Lake and Mooney that contribute the majority of BlackPearl's crude production, pumping out 4,274 and 3,696 barrels daily respectively for the first quarter 2014, amounting to 85% of the company's total production.

But it is the Blackrod project that holds the greatest potential of these assets, with oil reserves of 182

million barrels and estimated contingent oil resources (have yet to shown to be commercially recoverable) of 566 million barrels of crude.

All of BlackPearl's properties hold oil reserves of 290.6 million barrels, which after taxes and discounted by 10% in accordance with industry standards have a net present value of \$1.7 billion or \$5.65 per share. This represents a premium of 128% over the company's current share price, highlighting just how undervalued it is at this time.

There are considerable risks despite the tremendous upside

But this significant premium factors in the risk associated with developing Blackrod, which holds around 63% of is oil reserves and is currently only in the pilot phase, producing 211 barrels of crude daily. This project contains a series of risks and BlackPearl has been actively looking for a partner to help finance and develop the project, but has yet to receive any significant sources of interest.

Key among those risks is Blackrod. It has yet to receive regulatory approval for commercial development, though the company is expecting to obtain this at some point in 2014. Blackrod will also be costly to develop with BlackPearl proposing it be developed in phases. The first stage is designed to produce 20,000 barrels of crude daily and is expected to cost around \$800 million to bring online.

Could it really be a multi-bagger?

Despite stronger industry fundamentals and BlackPearl expecting moderate production growth over 2014 when compared to 2013, the company is trading at close to its fair value at this time. This is because the majority of its value is locked up in the oil reserves at Blackrod and until the company has a clear roadmap in place illustrating how it expects to exploit those reserves, the risks outweigh the rewards at this time.

But with growing investor interest in small-cap oil explorers and producers in the patch, BlackPearl may be able to secure the capital required to develop the project, which would see its share price soar.

However, risk-tolerant investors may wish to consider taking a small stake, betting on the eventual success of the Blackrod project, which would see BlackPearl's share price soar into the stratosphere.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WCP (Whitecap Resources Inc.)

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