Birchcliff Energy Ltd. Just Went All-In on Rising Oil Prices

Description

During the last energy bull market, numerous companies raised billions in capital (through debt and equity), deploying the funds across varying projects and regions, many of which had high breakeven costs. After the crash, these were the first companies to go bankrupt.

Birchcliff Energy Ltd. (TSX:BIR) has succeeded by breaking the mould.

A focused strategy

By specializing in one geographic region, Birchcliff is able to be the lowest-cost producer in that area. For example, last year, its production costs were below $2 per mcfe. Production costs have declined in every year since 2012.

Low costs have allowed the company to maintain profitability even during the worst markets. In 2012 Birchcliff experienced average natural gas prices of $2.27 per mcfe–the lowest in a decade. Still, it generated earnings of $0.34 per mcfe–a profit margin of 7%.

A new growth driver

In June Birchcliff took advantage of one of its competitors, buying up assets at a very attractive price.

Encana Corporation (TSX:ECA)(NYSE:ECA), a major natural gas producer, had been selling assets for years to pay down an onerous debt load and fund its current project pipeline. In 2015 alone it sold nearly $3 billion in assets, laying off about half of its workforce. This summer it announced another transformational move: a $625 million deal to sell assets in northwestern Alberta to Birchcliff Energy.

With this deal, Birchcliff doubled down on a strategy that's given it tremendous success. That is, it's consolidated its position in a controlled region with relatively low costs and decline rates. The company also got quite a deal considering Encana's weak bargaining position. With an average production rate of 26,000 barrels of oil equivalent per day, Birchcliff is paying less than US$20,000 per flowing barrel.

For comparison, **Noble Energy, Inc.** paid $2.1 billion to acquire **Rosetta Resources Inc.'s** Permian and Eagle Ford production in 2015–a time when oil prices were just US$40 a barrel. The acquisition was done at $33,333 per flowing barrel of oil equivalent–a more than 50% premium than what Birchcliff paid.

A long-term pick

Birchcliff shows time and time again that it is capable of producing shareholder value even during the toughest markets. Its latest acquisition should bring newfound momentum to an already successful production-growth history.

Image Source: Birchcliff Energy Investor Presentation

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Management has goals to more than double production over the next five years. With its solid financial position, ample reserves, and both organic- and acquisition-growth opportunities, it's likely that it will meet this target. With natural gas starting to show signs of life, Birchcliff represents one of the best long-term plays on rising prices.

CATEGORY

1. Energy Stocks
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1. TSX:BIR (Birchcliff Energy Ltd.)

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