



Which of These Stocks Has More Upside?

Description

[Natural gas stocks](#) have been in a slump lately. Particularly, in the last 12 months, the stock of **Tourmaline Oil Corp.** ([TSX:TOU](#)) has fallen as much as 34%, and the stock of **Birchcliff Energy Ltd.** ([TSX:BIR](#)) has fallen as much as 60%.

However, in the last month, both stocks have rallied strongly from their lows. Tourmaline stock has appreciated 19%, and Birchcliff is up +31%. Are the stocks turning around for real?

Technically

One way to tell if stocks are turning around is by looking at their technical charts. Here's what I see from the charts of Tourmaline and Birchcliff: neither stock has broken out of their downtrends yet. When they do, it'll be signaled by higher highs and higher lows.

Tourmaline stock has resistance at ~\$26 per share, but first, it'll need to break above its 50-day moving average, which is just under \$24 per share. Even when the stock reaches ~\$26 per share, it'll still be a long way off from its two-year high of \$38 per share.



Birchcliff stock has resistance at ~\$4.50 per share. After that, it'll need to break above its 50-day moving average, which is just under \$5 per share. Even when the stock reaches ~\$5 per share, it'll still be halfway below its two-year high of \$10 per share.

Recent results

Tourmaline is a natural gas weighted producer (~84% natural gas) and estimates its average production this year will be 270,000-280,000 barrels of oil equivalent per day (boepd). In 2017, its cash flow per diluted share increased 43% to \$4.47.

Perhaps to instill confidence in the market, Tourmaline initiated a quarterly dividend of \$0.08 per share in the first quarter, which implies a yield of ~1.3% based on its recent quotation of ~\$23.70 per share. The company is only paying out ~6% of its cash flow as dividends. However, if you account for its capital investments, then its payout ratio is closer to ~107%.

Birchcliff is a natural gas weighted producer (~80% natural gas), and its average production for 2017 was nearly 68,000 boepd. It estimates that this year, its average production will be 76,000-78,000 boepd.

Birchcliff's fourth-quarter cash flow per share was \$0.36. So, it's paying out ~7% of its cash flow as dividends. However, if you account for its capital investments, then its payout ratio is closer to ~73%. At the recent quotation of \$4.33 per share, Birchcliff offers a ~2.3% yield.

Investor takeaway

Most investors buy Tourmaline or Birchcliff for their price-appreciation potential, not their dividends. The analyst consensus from **Thomson Reuters** thinks there's double-digit upside for both stocks — ~18% for Tourmaline and ~38% for Birchcliff in the next 12 months.

The natural gas industry is a tough space to operate and invest in because of low natural gas prices. However, when the cycle turns, both stocks can trade much higher. Tourmaline stock could reach the \$30s, and Birchcliff stock could reach \$10. Investors just need to be patient.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:BIR (Birchcliff Energy Ltd.)
2. TSX:TOU (Tourmaline Oil Corp.)

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