

How Much Upside Does Birchcliff Energy Ltd. (TSX:BIR) Stock Have?

Description

Birchcliff Energy Ltd. (TSX:BIR) stock has done very well. Since March, the low-cost, natural gasweighted (about 80% natural gas) oil and gas producer has appreciated more than 70% from a low of \$3 per share. With the stock now hovering around \$5 and change per share, it is meeting some How much upside does Birchcliff stock have? resistance.

The super run-up we've seen in the stock in the last few months might make investors pause. However, an investment in the stock today can still pay off.

Birchcliff stock has been trading in a cyclical manner. If you look at its price chart over a period of 10 years, you'll notice the roller-coaster ride. At peaks, it tends to hit highs of more than \$13 per share. The most recent peak hit a high of more than \$9 per share.

Notably, in the last four peaks over a period of a decade, the stock hit the respective highs during the summer — mostly in June or July. We still have some summer months to go, which could push the stock to the \$6-per-share level this year. This would imply near-term upside potential of about 16%.

If you're looking for a peak that resonates with the stock's cyclical pattern of the last decade, you may be waiting for a +\$9 target for the next two to four years. This would imply long-term upside potential of more than 70%.

So, buyers or holders of Birchcliff stock should be aware of their investment horizon for the stock and adjust their price targets accordingly.



Dividend

Birchcliff stock offers a quarterly dividend per share of \$0.025, which implies a dividend yield of just under 2% at the recent quotation of \$5.16 as of writing. Although the dividend is small, it'll still be a welcome addition to the overall returns.

Recent results

Birchcliff's average production for 2017 was about 68,000 barrels of oil equivalent per day (boepd). Its first-quarter average production was about 76,300 boepd, which was an increase of 24% compared to the same period in 2017.

Management estimates that this year, Birchcliff's average production will be 76,000-78,000 boepd, which would be a growth of 12-15% over 2017.

In April, Birchcliff entered a long-term (at least 15 years) natural gas-processing agreement at **AltaGas Ltd.'s** deep-cut sour-gas processing plant in the Gordondale area. This deal will help stabilize Birchcliff's cash flow generation.

Investor takeaway

Insider purchases are always a positive sign. Insiders bought Birchcliff stock directly or indirectly as recently as early this month at \$4.89 per share.

Birchcliff stock tends to have <u>seasonal strength</u> in the summer. Investors looking for a quick trade for this summer could aim to sell at the \$6-per-share level. However, this is a riskier method than investors looking for a longer-term investment of two to four years with a target of about \$9.

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