Newcomers: Buy and Hold This 1 Stock and You're Set for Life

Description

What if I told you that there was a stock on the **TSX** with a 4.57% dividend yield and a share price that has a 52-week low of $1.69 and $4.64.

This is actually a reality for investors of **Birchcliff** (TSX:BIR). The company engages in the exploration for and the development, production, and acquisition of petroleum and natural gas reserves in Western Canada.

An interpretation of the numbers

Birchcliff is one of a handful of companies in the oil and gas sector that reports positive retained earnings. This is a good sign for investors, as it indicates the company has achieved more years of net income than net losses.

For the six months ended June 30, 2019, the company reports an acceptable balance sheet with a growth in assets of $77 million driven by increases in PP&E of $143 million. The company reduced its A/R from $52 million to $48 million, which is a good sign for investors, as it indicates the company is collecting from its debtors. The company ended the year with retained earnings of $171 million, which is down slightly from $178 million the prior year.

Looking at the income statement, overall revenues decreased by $36 million, largely driven by an $85 million unrealized gain on financial instruments, which is up from a loss of $6 million the prior year. I'm not too concerned about this unrealized loss, as the terms extend to 2025, which gives oil and gas prices ample time to fall within positive territory for the company. Despite the company's net loss of $11 million for this period, the income tax recovery of $19 million resulted in net profits of $8 million after taxes.

The company reports operating cash flows of $193 million which is up from $164 million the prior year. Despite a reduction in the company's PP&E spending from $203 million to $161 million, its acquisition of petroleum and natural gas properties and equipment increased by $34 million. The company continues to pay its dividend.

But wait, there's more

Looking at the company's notes to its financials indicates a couple of important items.

Firstly, the company has high liquidity. Despite an ending cash balance of $21,000 at June 30, 2019, the company has access to $1 billion in credit facilities which consist of a $900 million syndicated credit facility and a $100 million working capital facility. As of June 30, 2019, the facilities are 62% utilized.

Secondly, the company derives most of its revenue (56%) from natural gas sales. Given that natural gas is currently in a trough, it is a primary driver of the company's low share price. When natural gas recovers, investors can expect Birchcliff's share price to follow suit.

Foolish takeaway

Investors that are looking for a dividend stock coupled with the potential for significant capital gains should consider buying shares of Birchcliff. The company has positive retained earnings (which many oil and gas companies do not), and it reports a steady stream of revenue (that is unfairly suppressed due to low prices in the oil and gas industry).

Birchcliff also has a $1 billion credit facility, of which 38% remains unused. This gives the company access to liquidity to weather downturns and fuel future growth.

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