



## 1 Small-Cap Energy Stock Could Raise Dividends 6 Times by 2023

### Description

The Omicron variant is a threat, but should not cause a significant erosion in oil demand say energy bulls. Rafi Tahmazian, a senior portfolio manager at Canoe Financial, said recently that a supercycle is coming to the [energy sector](#). Moreover, the International Energy Agency predicts that demand will rise to 99.5 million barrels per day this year.

According to some industry analysts, a [dividend bonanza](#) likewise looms because energy companies are likely to spend more on dividends in 2022 than large capital projects. Eric Nuttall, of Toronto's Ninepoint Partners LP, said Canada is the place to be in 2022, particularly the energy sector.

### Obscure names are top performers

The energy sector remains the best performer as January comes to a close (+10.22%). [Obscure stocks](#), not the more popular ones, are among the top 100 stocks thus far in 2022. **Inplay Oil**, **NuVista Energy**, **Obsidian Energy**, **Baytex Energy**, and **Pipestone Energy** have one-year gains of at least 300%.

**Vermilion Energy** was also among the winning stocks last year, and management announced recently a plan to reinstate payouts to shareholders. It suspended dividends after April 2020 to conserve capital and preserve the balance sheet. The oil and gas producer hopes to start paying dividends (\$0.06 per share) in April 2022.

### Capital gain plus recurring income

Market analysts have raised the possibility that **Birchcliff Energy** ([TSX:BIR](#)) could be the sector's biggest draw this year. The \$1.54 billion intermediate oil and natural gas company plans to be completely debt-free within the next two years. If management succeeds, industry observers believe Birchcliff can pay significantly higher dividends.

Based on its updated five-year plan, management expects to generate \$1.9 billion between 2022 and

the end of 2026. Also, Birchcliff can potentially reduce total debt to zero in 2023. The company targets a debt level of \$175 million to \$195 million (more than three quarters from early 2021) by year-end 2022.

Michael Harvey, an analyst at **RBC** Capital Markets, said, "We see Birchcliff becoming debt-free in 2023, setting the stage for an outsized return of capital via continued increases to base dividend and share buybacks."

Harvey predicts the energy stock will follow up its double quarterly payout in November 2021. There should be four more increases by the end of 2023. Meanwhile, Chris Thompson, an analyst at **CIBC** Capital Markets, said the dividend hikes are unlikely in the first half of 2022. However, the higher payouts might start much later this year.

## Exceptional stock performance

In the nine months ended September 30, 2021, Birchcliff reported 173.43% and 193.25% increases in cash flow from operations and adjusted funds flow versus the same period last year. Its net income reached \$204.38 million compared to the \$102.41 million net loss in the prior-year period.

Notably, the company delivered exceptional third-quarter results, including record quarterly adjusted funds flow(\$168.1 million) and free funds flow(\$150.1 million). Birchcliff President and CEO Jeff Tonken said after Q3 2021, "As a result of this excellent performance, we are swiftly reducing our debt."

Performance-wise, Birchcliff rewarded investors with a 267.05% total return in 2021. If you invest today, the share price is \$5.83, while the dividend yield is a modest 0.70%. Still, the near-term gain should be enormous. Analysts forecast an average return potential of 64.67% in 12 months.

### CATEGORY

1. Energy Stocks
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