2 Oil Stocks That Could Be Poised for a Big Drop

Description

Energy, the **TSX's** top-performing sector so far in 2022, didn't have a strong start to Q3 2022. It lost 6.63% in the last five trading sessions and closed 1.73% lower on July 1, 2022. Notably, two of its constituents declined significantly in 10 days.

While **Birchcliff Energy** (TSX:BIR) and **Peyto Exploration & Development** (TSX:PEY) are still up year to date, both oil stocks appear poised for a big drop. The former gave up 13.79%, while the latter plunged 14.25%.

Dividend increases are coming

Birchcliff is among the top price performers in the energy sector. At $8.75 per share, the trailing one-year price return is 69.20% and the year-to-date gain is 35.88%. Investors also enjoy a modest 0.91% dividend. The $2.31 intermediate oil & natural gas company operates in the Montney/Doig Resource Play in Alberta.

One reason Birchcliff might not tank is its strong performance in Q1 2022. Its CEO Jeff Tonken said, "We continue to be committed to maximizing free funds flow generation and significantly reducing indebtedness. I am pleased to report that Birchcliff delivered on both fronts in Q1 2022."

In the three months ended March 31, 2022, total revenue climbed 54% versus Q1 2021. However, the quarter's highlight was the 467% year-over-year growth in net income to $125.79 million. The icing on the cake was the record $95.42 million in free funds flow compared to the -$8 million from a year ago.

Furthermore, the board of directors approved a 100% increase in dividends over the preceding quarter. Management said that it would consider additional increases to its common share dividend this year depending on commodity prices and free funds flow levels. The targeted increase for 2023 is $0.80 per share, or $212 million annually.

According to management, Birchcliff can sustain the dividend increase if the average WTI price is US$70 per barrel. Tonken added, "Based on the strength of the forward commodity price environment and our excellent results year to date, we have increased our full-year 2022 targets for adjusted funds flow to $1.18 billion and free funds flow to $920 million to $940 million."

Market analysts covering Birchcliff have low and average price targets of $11 (+25.7%) and $13.61 (+56%), respectively, in 12 months.

Outperformer

At $12.04 per share, Peyto outperforms the broader market at +30.62% versus -11.13%. In 3.01 years, the oil stock's total return is 245.74% (51.04% CAGR). The $2.03 billion company had a strong start to 2022, but it doesn't reflect on the stock's performance.

In Q1 2022, total production and funds from operations increased 13% and 69% versus Q1 2021 due to the increased pace in capital investments. Revenue and earnings for the quarter increased 64% and 154% year over year, respectively. The company also paid a total of $25.35 million in dividends.

Peyto reported hedge losses but were offset by lower total cash costs, higher production, and higher realized commodity prices. The results were an industry leading operating margin and record funds from operations. If you invest today, the dividend yield is an attractive 4.98%.

Potential breakout

The building bullish sentiment in oil markets due to supply disruptions could reverse the downtrends of Birchcliff and Peyto. Both oil stocks could break out and soar higher from their current share prices.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BIR (Birchcliff Energy Ltd.)
2. TSX:PEY (Peyto Exploration & Development Corp)

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