



# Independent Stock Idea

August 13, 2010

rating: buy  
s&p 500: 1084

## **Birchcliff Energy Ltd. (BIR.TO)** **Alberta Small Cap Natural Gas Growth**

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 6/30/11 (US\$mm)</i>	139
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	48
<i>Price (US\$/sh)</i>	8.81	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/12/10	<i>Adjusted Reserves/Production NTM</i>	23.0
<i>Shares (mm)</i>	127	<i>EV/Ebitda</i>	9.9
<i>Market Capitalization (US\$mm)</i>	1,120	<i>PV/Ebitda</i>	14.6
<i>Debt (US\$mm)</i>	260	<i>Probable Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	1,380	<i>Natural Gas and Oil Ebitda (US\$/mcf)</i>	3.45
<i>Present Value (PV) (US\$mm)</i>	2,040	<i>Present Value Proven and Probable Reserves(US\$/boe)</i>	16.21
<i>Net Present Value (US\$/share)</i>	14	<i>Oil and Gas Ebitda Margin (%)</i>	67
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.21
<i>McDep Ratio - EV/PV</i>	0.68	<i>Price/Earnings Next Twelve Months</i>	42
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of Birchcliff see <a href="http://www.mcdep.com/5bir.htm">www.mcdep.com/5bir.htm</a>			

### **Summary and Recommendation**

Canadian small cap producer **Birchcliff Energy Ltd. (BIR.TO)** offers unlevered appreciation potential of 41% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of US\$14 a share. A volume increase of 19% from the first quarter was less than the 31% in our projections in part apparently because new processing capacity did not always operate at full rate during its first full quarter. Phase II of the Pouce Coupe South natural gas plant is due to add another burst of volume in December as previously anticipated. Rising volume demonstrates concretely the economic value of the company's rich resource position and helps validate our estimate of Net Present Value (NPV) (see table [Functional Cash Flow and Present Value](#)). Feeding the plant are horizontal wells drilled into the unconventional shale gas/tight gas Montney/Doig formation in northwest Alberta, a developing play attracting attention from other industry parties. For example, during the last month **Pengrowth (PGH)** valued Monterey Exploration at about US\$400 million as it acquired the early stage, British Columbia Montney player. Keeping its own position strong, Birchcliff increased its potential Montney/Doig drilling locations to more than 800 on more than 200 sections of land. With 37 wells drilled to date, development is in the beginning stages. Finally, at a time when markets seem to reflect a high degree of uncertainty, we believe investment in Birchcliff, a well-managed, small cap, clean fuel producer with identifiable growth potential, will bring future rewards.

Kurt H. Wulff, CFA



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<b>Birchcliff Energy Ltd.</b>									
<b>Next Twelve Months Operating and Financial Estimates</b>									
<b>(Canadian Dollars)</b>									
									<i>Next Twelve Months</i>
	<i>Q1</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	
	<i>3/31/09</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010E</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>6/30/11</i>
<b>Volume (before royalty)</b>									
Natural Gas (mmcf)	54	43	53	54	55	<b>51</b>	73	74	<b>64</b>
Days	90	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mbd)	3.5	3.3	3.5	3.6	3.7	<b>3.5</b>	4.5	4.6	<b>4.1</b>
Total (bcf)	6.8	5.6	6.7	7.0	7.1	<b>26</b>	9.0	9.2	<b>32</b>
Total (mmcfed)	75	62	74	76	77	<b>72</b>	100	102	<b>89</b>
<b>Price</b>									
Henry Hub (US\$/mmbtu)	4.90	5.32	4.09	4.62	4.61	<b>4.66</b>	4.94	4.82	<b>4.75</b>
Currency (US\$/C\$)	0.80	0.96	0.97	0.96	0.96	<b>0.96</b>	0.96	0.96	<b>0.96</b>
Henry Hub (C\$/mmbtu)	6.09	5.53	4.21	4.82	4.81	<b>4.84</b>	5.15	5.03	<b>4.95</b>
Differential (C\$/mmbtu)	0.82	0.19	0.05	0.05	0.05	<b>0.12</b>	0.06	0.05	<b>0.03</b>
Company (C\$/mcf)	5.27	5.34	4.16	4.77	4.76	<b>4.73</b>	5.10	4.98	<b>4.92</b>
WTI Cushing (US\$/bbl)	42.96	78.67	77.85	79.78	82.46	<b>79.69</b>	83.73	84.90	<b>82.72</b>
WTI Cushing (C\$/bbl)	53.43	81.82	80.05	83.30	86.10	<b>82.84</b>	87.43	88.65	<b>86.37</b>
Differential (C\$/bbl)	4.35	2.48	4.16	4.33	4.47	<b>3.84</b>	4.54	4.11	<b>4.17</b>
Company (C\$/bbl)	49.08	79.34	75.90	78.97	81.63	<b>79.00</b>	82.89	84.54	<b>82.20</b>
Total (\$/bbl)	36.48	47.12	39.43	43.00	43.82	<b>43.18</b>	44.71	44.73	<b>44.15</b>
<b>Revenue (\$mm)</b>									
Natural Gas	26	20	20	24	24	<b>88</b>	33	34	<b>115</b>
Oil	15	24	24	26	28	<b>102</b>	34	35	<b>123</b>
Royalties	(9)	(5)	(4)	(4)	(4)	<b>(17)</b>	(6)	(6)	<b>(20)</b>
Total	32	39	41	46	48	<b>173</b>	61	63	<b>217</b>
<b>Expense</b>	16	13	14	15	16	<b>58</b>	20	21	<b>72</b>
<b>Ebitda (\$mm)</b>	16	26	27	31	32	<b>116</b>	41	42	<b>146</b>
Deprec., Deplet., & Amort.	25	16	19	19	19	<b>73</b>	19	19	<b>76</b>
Other non-cash	3	3	3	3	3	<b>11</b>	3	3	<b>11</b>
Interest	2	3	4	4	4	<b>15</b>	4	4	<b>16</b>
<b>Ebt</b>	(14)	5	1	5	6	<b>16</b>	15	16	<b>42</b>
Income tax	(3)	2	1	2	2	<b>7</b>	5	6	<b>15</b>
<b>Net Income (\$mm)</b>	(11)	3	-	3	4	<b>10</b>	10	11	<b>27</b>
Per share (\$)	(0.09)	0.02	-	0.02	0.03	<b>0.08</b>	0.08	0.08	<b>0.22</b>
<b>Shares (millions)</b>	122	127	127	127	127	<b>127</b>	127	127	<b>127</b>
Ebitda margin (after royalty)	51%	67%	66%	67%	67%	<b>67%</b>	67%	67%	<b>67%</b>
Tax rate	19%	44%	100%	35%	35%	<b>41%</b>	35%	35%	<b>35%</b>



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<b>Birchcliff Energy Ltd.</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>Ebitda</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
North American Natural Gas	67	24.8	20.7	1,390	68%
Oil	72	18.1	9.0	650	32%
	139	23.0	14.7	2,040	100%
Debt					260
Net Present Value (US\$m)					1,780
Shares					127
Net Present Value - Standard Estimate (US\$/sh)					14
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					15

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