



Independent Stock Idea

August 16, 2013

Birchcliff Energy Ltd. (BIREF – Contrarian Buy) Buy Natural Gas in Summer

<i>Symbol</i>	BIREF	<i>Ebitda Next Twelve Months ending 6/30/14 (US\$mm)</i>	186
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	48
<i>Price (US\$/sh)</i>	6.90	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/15/13	<i>Adjusted Reserves/Production NTM</i>	18.6
<i>Shares (mm)</i>	166	<i>EV/Ebitda</i>	8.8
<i>Market Capitalization (US\$mm)</i>	1,150	<i>PV/Ebitda</i>	13.3
<i>Debt (US\$mm)</i>	490	<i>Undeveloped Reserves (%)</i>	69
<i>Enterprise Value (EV) (US\$mm)</i>	1,640	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	22.50
<i>Present Value (PV) (US\$mm)</i>	2,490	<i>Present Value Proven Reserves(\$/boe)</i>	16.70
<i>Net Present Value (US\$/share)</i>	12	<i>Oil and Gas Ebitda Margin (%)</i>	60
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.22
<i>McDep Ratio - EV/PV</i>	0.66	<i>Price/Earnings Next Twelve Months</i>	31
<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\$90 a barrel and natural gas, \$6 a million btu.			
For historical analysis of Birchcliff see www.mcdep.com/5bir.htm			

Summary and Recommendation

Temporarily lower production and seasonal softness in price may have contributed to setting up a Contrarian Buy opportunity in the stock of Canadian natural gas producer **Birchcliff Energy (BIREF)**. Second quarter results released the night of August 14 logged a 9% decline in natural gas production compared to the first quarter (see table [Operating and Financial Estimates](#) on page 2). Yet, the decline was less than we had allowed for scheduled maintenance and likely timing for connecting new wells. Looking ahead, volume is set to grow 25% from the second quarter average to the year-end exit rate of 30 thousand barrels equivalent daily. At the same time, natural gas price, normally lower in summer and further impacted by cooler weather in recent weeks, will likely see the usual seasonal gain in winter. Rising volume and price underlie our estimated Net Present Value (NPV) of \$12 a share (see table [Present Value](#) on page 3). Meanwhile, leading global energy companies are progressing in the planning of pipelines, liquefaction plants and terminals to be built on the British Columbia coast for shipment of Canadian natural gas to Asia. **Chevron (CVX)** believes it has the most advanced project. Its 50%-owned Kitimat venture has permits in place for export and the plant site. Most of the agreements have been reached with native landowners for building a pipeline. Front end engineering has been completed on the first liquefaction train. Discussion with Asian buyers is underway to contract for a majority of the output. Concurrently, CVX and other LNG developers need to line up long term natural gas supply. Birchcliff has the natural gas resources to attract large amounts of capital to acquire the whole company or to finance acceleration of production growth.

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Birchcliff Energy Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
	Q2	Year	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/12	2012	3/31/13	6/30/13	9/30/13	12/31/13	2013E	3/31/14	6/30/14	6/30/14
Volume (before royalty)										
Natural Gas (mmcf)	101	107	128	117	131	140	129	144	144	140
Days	91	366	90	91	92	92	365	90	91	365
Oil (mmb)	0.48	1.83	0.43	0.42	0.44	0.50	1.79	0.45	0.46	1.84
Oil (mbd)	5.2	5.0	4.8	4.6	4.8	5.4	4.9	5.0	5.0	5.1
Total (mmb/e)	2.00	8.3	2.35	2.20	2.45	2.64	9.6	2.61	2.64	10.3
Total (mbo/e)	22.0	22.8	26.1	24.1	26.6	28.7	26.4	29.0	29.0	28.3
Price										
Henry Hub (US\$/mmbtu)	2.21	2.79	3.34	4.10	3.49	3.48	3.60	3.73	3.68	3.59
Currency (US\$/C\$)	0.99	1.00	0.99	0.98	0.97	0.97	0.98	0.97	0.97	0.97
Henry Hub (C\$/mmbtu)	2.24	2.78	3.36	4.19	3.60	3.60	3.69	3.85	3.80	3.71
Differential (C\$/mmbtu)	0.19	0.15	(0.04)	0.41	0.35	0.35	0.28	0.38	0.37	0.36
Company (C\$/mcf)	2.05	2.63	3.40	3.78	3.25	3.24	3.40	3.47	3.42	3.35
WTI Cushing (US\$/bbl)	93.32	94.16	94.41	94.22	105.65	104.32	99.65	100.49	97.32	101.94
WTI Cushing (C\$/bbl)	94.25	94.01	95.13	96.41	109.06	107.68	102.04	103.72	100.45	105.23
Differential (C\$/bbl)	12.49	9.66	10.01	5.92	6.70	6.61	6.97	6.37	6.17	6.43
Company (C\$/bbl)	81.76	84.35	85.12	90.49	102.36	101.07	95.07	97.35	94.29	98.80
Total (\$/bbl)	28.80	30.81	32.19	35.73	34.43	34.79	34.28	34.00	33.26	34.12
Revenue (\$mm)										
Natural Gas	19	103	39	40	39	42	160	45	45	171
Oil	39	154	36	38	45	50	170	44	43	182
Royalties	(6)	(24)	(6)	(7)	(8)	(9)	(30)	(8)	(8)	(32)
Total	52	233	69	71	77	83	300	81	80	320
Expense										
	22	92	24	24	31	33	111	32	32	128
Ebitda (\$mm)										
	30	140	46	47	46	50	189	48	48	192
Deprec., Deplet., & Amort.	23	96	27	25	25	26	104	26	26	103
Other non-cash	2	1	3	1	2	2	8	2	2	8
Interest	5	23	7	7	7	7	27	7	7	26
Ebt										
	1	20	9	14	12	15	50	14	13	55
Income tax	1	8	3	4	4	5	15	4	4	16
Net Income (\$mm)										
	-	13	6	10	8	11	35	10	9	38
Per share (\$)	-	0.09	0.04	0.07	0.05	0.07	0.23	0.06	0.06	0.23
Shares (millions)										
	139	140	144	145	166	166	156	166	166	166
Ebitda margin (after royalty)	58%	60%	66%	67%	60%	60%	63%	60%	60%	60%
Tax rate	100%	38%	34%	29%	30%	30%	30%	30%	30%	30%



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Birchcliff Energy Ltd.					
Functional Cash Flow and Present Value					
	<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	90	12.2	18.9	1,700	69%
Oil	96	10.0	8.1	780	31%
	186	11.8	13.3	2,480	100%
Debt					490
Net Present Value (US\$mm)					1,990
Shares					166
Net Present Value - Standard Estimate (US\$/sh)					12
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					10

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