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Energy Winners: Can Brigham Go Higher?

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AUSTIN, Texas([TheStreet](#)) -- **Brigham Exploration**([BEXP Quote](#)) was one of the top performers in the energy sector over the first two days of this week, up a combined \$2.10 on Monday and Tuesday.

To put that in perspective, consider this: that \$2.10 spike represents an increase of more than 100% versus Brigham's total share price one year ago.

Positive drilling results released to the market late Monday were responsible for the two-day surge in shares of Brigham Exploration. However, the question for investors is whether the drilling results are a harbinger of more positive drilling results that will drive Brigham's stock price higher, or will lead to a short-term pullback.

The long-term trend is clear: Brigham was a \$1 stock at the beginning of 2009 and hit a 52-week high of \$15.80 on Tuesday. However, whether Brigham will continue to go up is a tough question to answer, and there are arguments both for and against another spike in the share price of Brigham in the near-term.

For one, Brigham shares slipped back on Wednesday to \$15.17 in early afternoon trading, after hitting a 52-week high on Tuesday. However, Brigham's 0.65% decline on Wednesday was in line with the energy sector decline of 0.6%.

The larger issue for Brigham is that the stock also saw a significant spike in early January after positive drilling results, but quickly experienced a share decline on the heels of the surge. In fact, it was not until the two-day spike this week that Brigham recovered from the decline that followed the previous drilling results-triggered spike.

Brigham had climbed as high as \$15.48 on Jan. 6, yet by Jan. 27, had fallen back to \$12.60.

Analysts who cover the oil & gas drilling sector say that it is typical of investors to reward the more speculative opportunities with a share hike after positive drilling results, and then quickly pull back on concerns that the companies like Brigham will slip up.

But although the drilling results that Brigham reported early in January were its best results ever, the typical pullback from investors was compounded by a slip in oil prices after the Brigham announcement and a short-term peak of stocks in the sector right before the middle of January. The oil and gas group as a whole peaked around the time of Brigham's early January drilling results and right before oil prices slid, analysts noted. Crude oil indexes hit a 52-week high around the Jan. 11 to Jan. 12 period.

Brigham's recent results are focused on the Brakken deposits of North Dakota. Brigham peers include **American Oil & Gas**([AEZ Quote](#)), **Northern Oil & Gas**([NOG Quote](#)) and **Kodiak Oil & Gas**([KOG Quote](#)). These three stocks showed a more or less similar profile to Brigham in January, rising mid-month, before sliding back, and only recovering in the final days of January and the first few days of this week.

Joel Musante, an energy analyst with C.K. Cooper said that there is always uncertainty after positive drilling results, and specific uncertainty about how quickly drilling rates will decline. "The market is willing to give a company credit for what it has done, but at some point, when it feels like it is giving too much credit, investors focus on the downside risk and take profits," Musante said.

These stocks, including Brigham, are getting considerable credit for undeveloped acreage, but there is reason, given results, for the market to reward. The recent run-up is not unwarranted, but the more credit given, the more volatile the stock becomes, Musante explained.

Nonetheless, Musante thinks this time it is different, after the most recent drilling results from Brigham. C.K. Cooper has upped its price target from \$18 to \$20, thinking there is still room for Brigham shares to move up, even taking into account the typical pullback in energy stocks, and the Brigham-specific pullback earlier in January. Another analyst who covers Brigham, but said his company

maintains a firm policy of not speaking to the press, did indicate that he upped Brigham to outperform in mid-January and raised his price target to \$17.

C.K. Cooper's Musante doesn't necessarily think the Brigham move up will happen all at once, given the sector trading history. "They very well could take a step back again," he said. However, Musante thinks oil prices are stabilizing, which should help these stocks as they hew so closely to the crude price trend. If an investor reached high point when oil hit \$83, and assumed oil would go down, it might have made sense to take profits given the downside risk in companies like Brigham.

Musante said that the Brigham well-drilling results have increased over time. Even though the early January results were stronger than the news this week, this week's drilling results were still the second-best from Brigham.

What's more, investors often worry that production declines follow very quickly on the heels of positive drilling results. Musante said that the more recent January drilling results from Brigham included the best evidence yet that the levels of production can be sustained.

The latest Brigham 30-day rates were at the level of 1,500 barrels, versus earlier results in the 700-barrel to 960-barrel range. Musante cautions that this has been a major concern for investors, and it is hard to extrapolate too much from this one data point, but at least of late, Brigham seems to be winning this argument.

American Exploration is also active in a location adjacent to Brigham's in North Dakota. C.K. Cooper expects drilling results from American Exploration in the next two months, about which Musante remains optimistic.

EOG Resources([EOG Quote](#)) was one of the first exploration firms to have considerable success in North Dakota, and EOG's success brought attention to the speculative play.

Brigham has since moved out beyond the Mountrail County area in North Dakota where EOG had its early success.

-- Reported by Eric Rosenbaum in New York.

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