



Peyto Keeps on Rolling

Description

On Wednesday evening, natural gas producer **Peyto Exploration & Development Corp** ([TSX:PEY](#)) reported results for the fourth quarter of 2013, and the numbers were very impressive. Fourth-quarter production per share was up by 35% year over year, with industry leading cash costs of \$1.06 per thousand cubic feet (Mcf). Total reserves per share also increased by 19%. The dividend remains at \$0.08 per share per month, about a 2.7% yield.

These kinds of results have become very familiar for Peyto and its shareholders. Since 2001, the company has grown production per share by 30%, almost all of it organically. This growth has also come at very high returns; Peyto's average return on equity over the past 15 years has been over 30%. As a result, its shareholders have done extremely well. If someone invested \$10,000 in Peyto in 1999 and reinvested the dividends, that stake would be worth \$6 million today.

Recent numbers have not been as strong; for example, return on equity was 12% last year. But that is understandable, given how far gas prices have fallen in recent years. Other gas producers such as **Encana** (TSX:ECA)(NYSE:ECA) are making much lower returns on natural gas, and are looking to shed assets.

Meanwhile, Peyto plans to keep growing. Under the current plan, the company hopes to grow production by about 40% over the next three years. But costs will not be ignored; in fact, Peyto hopes to bring its cash costs down to \$1 per Mcf, and hopes to bring down its per-unit capital costs as well.

While all this seems like great news, there are downsides to holding the shares. The main one is price. Peyto is currently trading at about the value of its reserves – but that reserves calculation implies only a 5% rate of return, and doesn't factor in taxes. While the company won't be taxed for a while anyways, this is a high price to pay for an energy company.

Foolish bottom line

Like **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)), which also [reported earnings today](#), Peyto is not suitable for investors who like predictable earnings. But the company has a fantastic track

record, and shareholders have reaped plenty of rewards so far. The most recent results were just the latest example.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:PEY (Peyto Exploration & Development Corp)

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Date

2025/09/11

Date Created

2014/03/06

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