



## 1 Energy Stock to Buy for Under \$5: Pengrowth Energy Corp.

### Description

The savage sell-off of energy stocks triggered by the collapse in oil prices that wiped billions off valuations in the energy industry has created a once-in-a-lifetime buying opportunity. One company that stands out as a levered play on the long-awaited rebound in crude is **Pengrowth Energy Corp.** (TSX:PGF)(NYSE:PGH).

### Now what?

In the last year its share price has been pummeled primarily because of markedly low crude prices; it went down by a massive 51% in that period. This has left it attractively priced as highlighted by two valuation metrics: its enterprise value of eight times its oil reserves and seven times its forecast 2015 EBITDA.

It also continues to pay a juicy 6% dividend yield, despite slashing its dividend by half earlier this year.

More importantly, in the current harsh operating environment Pengrowth is actively managing the risk of lower commodity prices. It has hedged 75% of its 2015 oil production at \$94 per barrel and 56% of its 2016 production at \$90. This will help to protect its cash flows this year and the next, while earlier cuts to capital expenditures and the dividend have helped to shore up its balance sheet.

It also has a portfolio of quality oil assets and has made meaningful inroads into the development of the Lindbergh thermal oil sands project.

This project has already commenced first steam, contributing 12,500 barrels of crude daily to Pengrowth's total production. This is set to become a major asset for Pengrowth, with production to be ramped up to 50,000 barrels daily. This project will become a major cash flow generator for the company, particularly as it is a long-life asset that will be very cheap to maintain.

Importantly, with sharply lower crude prices now a part of the economic landscape in the foreseeable future, the Lindbergh project should remain viable even with Canadian heavy crude selling at \$40 per barrel. This will help to boost cash flows and keep the dividend sustainable.

## So what?

Oil stocks may be in disfavour with investors, but because Pengrowth is trading at attractive valuations, now the right time to buy.

Pengrowth stands out because it is attractively priced and pays an increasingly sustainable dividend yield, and because of the Lindbergh project that is set to become a major asset for the company. This project, along with its hedging program, will help to maintain cash flows in the harsh operating environment we are now witnessing, while giving Pengrowth the opportunity to rapidly boost production when crude prices recover. Investors will also continue to be rewarded by that tasty dividend yield as they patiently wait for oil prices to recover.

## CATEGORY

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