Advantage Oil & Gas Ltd.: Phenomenal Upside Potential in 2017

Description

Advantage Oil & Gas Ltd. (TSX:AAV)(NYSE:AAV) is one of the few companies in the natural gas production sector that has managed to grow during the downturn; it has grown exponentially in productivity, cash flow, and profitability during the most adverse of times thanks to above-average management and technological advancement in natural gas exploration and extraction**.** There is a high chance the company stock may soar in 2017.

This company has managed to sustainably increase productivity and profitability in the recent quarters. Management estimates production growth of about 44% during 2016 alone. Their 2017 capital expenditure budget is even promising further 17% growth in productivity for the year, and a 16% compound annual growth rate into 2019 is anticipated too. This expectation is from management that has consistently beat production targets since 2008.

Most noteworthy, Advantage has become one of the lowest-cost Montney producers with a record-low total corporate cash cost of a mere $0.58 per thousand cubic feet of natural gas equivalent (mcfe) recorded in the third quarter 2016 against an average of $2.41/mcfe for peers.

Its finding and development costs have been low too, and the company is going strong in its quest to become the lowest-cost natural gas producer in the industry, competing heavily with rival **Peyto Exploration & Development Corp**.

Advantage a great company that appears to have been mistakenly ignored by Wall Street for a long time; there's been sparse coverage and low investor interest. However, this could change in a few months as the company gains profitability momentum and continues to report better results quarter over quarter. There may be a surge in its stock-price momentum at any time.

The prospects for this young company are great going forward, especially considering that it needs only a $2.95 per thousand cubic feet of gas (mcf) AECO hub price to achieve a debt-to-cash flow ratio of 0.8 exiting 2017 and to achieve cumulative cash surpluses through 2019. With several energy sector analysts projecting average AECO hub prices to average $3.52/mcf over the course of the year, rising to $3.83/mcf at the end of 2018, one can imagine how obscenely profitable the 2017 quarters could be for Advantage.

Even if gas prices were to tank in 2017, the company has 45% of its production hedged at $3.19/mcf for the year and can still achieve a cash flow netback of $1.30/mcfe at just $2.00/mcf without any hedging activity thanks to its super operational efficiencies.

Among many other compelling investment options, Advantage Oil & Gas Ltd. is a holding where great capital gains could be reaped in 2017 and beyond. The awesome achievements management has been reporting since 2008 can't be ignored any longer. Given the competitive advantages Advantage has amassed in the natural gas sector to date, the potential for a rally in the company stock is phenomenal.

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