Don’t Miss Out on This Juicy 5% Yield and its Solid Growth Prospects

Description

Natural gas has languished for some time as a massive expansion in supply and high inventories have placed pressure on prices. However, there are signs that demand is about to explode.

You see, natural gas is the fossil fuel of the future, and it is fast becoming the preferred fuel of choice for electricity generation. One company positioned to benefit from the looming natural gas boom is upstream natural gas producer **Peyto Exploration and Development Corp.** (TSX:PEY).

Now what?

Its operations are focused on Alberta’s Deep Basin, where it has 450,000 acres and natural gas and petroleum liquids reserves totaling the equivalent of 655 million barrels of oil. The quality of this acreage is demonstrated by the considerable success that Peyto has enjoyed with its exploration and drilling program, which saw its reserves by the end of 2016 grow by 11% compared to a year earlier. This acreage endows Peyto with tremendous exploration upside, giving it significant drilling inventory composed of over 2,100 locations.

This acreage and its considerable reserves will support the company’s ambitious plans to boost production.

For 2016, production grew 13% year over year and was more than 90% weighted to natural gas, while 2017 output is forecast to grow by an impressive 23%. Such solid growth will allow Peyto to take full advantage of higher natural gas prices.

Aside from substantially expanding its production, Peyto has also been able to significantly reduce costs. By the end of 2016, operating expenses had fallen by 14% compared to a year earlier, and further efficiencies are expected to be implemented during 2017. This will give its margins a healthy boost in an operating environment where natural gas prices are rising.

Natural gas prices firmed and are now almost 61% higher than they were a year ago.

More importantly, there are signs that this will continue because it is one of the cleanest-burning fossil fuels, producing roughly half the carbon emissions of coal. When this crucial factor is considered along with low prices, ample supply, and its ability to fuel the generation of baseline power, it is easy to see why it has become the preferred fuel of choice for producing electricity.

Demand for gas-fired electricity can only grow exponentially as government regulations and carbon taxes force the early retirement of coal-fired plants or make them prohibitively expensive to operate. This has triggered a massive shift across the electricity-generating industry, where the number of gas-fired power plants under construction or coal-fired plants being converted to gas have grown significantly.

It has also become the fuel of choice in energy-hungry China, where gas's contribution to China's energy mix has doubled over the last decade. That rapid growth can only continue because Beijing is focused on improving the notoriously poor air quality of China's major cities; it's targeting 10% of China's energy to come from natural gas by 2020.

It is speculated that this will trigger a massive supply imbalance as the rapid growth in demand outstrips supply, thereby causing prices to rise. The effects of this can already be seen in Australia, where its federal government recently moved to restrict gas exports in an attempt to circumvent a domestic supply shortage and rapidly rising prices caused by growing demand from China.

So what?

Peyto is among the best equipped natural gas producers to benefit from the looming natural gas boom that will be triggered by a marked uptick in demand for gas-fired power generation and China's massive thirst for cleaner sources of energy. While patient investors wait for this to push its stock higher, they will be rewarded by that sustainable dividend yielding a very juicy 5%.

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