



## Time to Catch a Ride With Painted Pony Petroleum Ltd.?

### Description

**Painted Pony Petroleum Ltd.** (TSX:PPY) is a junior natural gas company based out of western Canada. The company has promising projects in the Montney Formation in British Columbia, which is a high-quality reservoir saturated with natural gas, where no water that can get in the way of extraction.

The stock has sunk 46% below its 52-week high, but it has since started to see some positive momentum thanks to a slight rally in natural gas prices, but many analysts have downgraded the stock in recent months. The pessimism surrounding the stock may be overdone, and a sustained rally could be on the horizon for contrarian investors who have the patience to wait out the volatility.

Weak natural gas prices have taken a toll on the stock, but I don't believe natural gas prices will remain low for an extremely long period of time. As fellow Fool contributor Matt Smith [pointed out](#), the demand for natural gas is expected to increase as gas-fired plants replace coal-fired plants in the years ahead. It's not a mystery that the world is gradually moving away from "dirty" fossil fuels like coal. As a result, less dirty sources of energy, like natural gas, will become more favourable, and that's why it makes a lot of sense to consider an investment in natural gas right now.

The stock of Painted Pony has been a roller-coaster ride, but if you're bullish on natural gas, it's hard to go wrong with this company. The management team is putting its foot on the pedal when it comes to growth. Production is expected to increase by about 85% for 2017, and the company is expected to be cash flow positive sometime in 2019. I think Painted Pony is severely oversold right now, and there's a considerable margin of safety involved with an investment at current levels.

Although the balance sheet is leveraged, I believe the company will have no issues paying back debt once it becomes cash flow positive in a few years. There are catalysts that could push natural gas prices higher when combined with the fact that Painted Pony is growing at a rapid rate. The stock could offer a great deal of capital appreciation for contrarian value investors who are looking for a rebound.

If you've got a long-term time horizon, then it makes sense to pick up shares incrementally over the next few months to lessen the volatility.

### CATEGORY

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## **Date**

2025/08/24

## **Date Created**

2017/05/22

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