



## This Natural Gas Producer Is a Screaming Buy

### Description

**Peyto Exploration and Development Corp.** ([TSX:PEY](#)) is an oil and gas company with over 90% of its production from natural gas, most of it coming from the Deep Basin of Alberta. It has a \$3.2 billion market capitalization.

Its shares have hit 52-weeks lows after declining 40% since January 2017. They now represent a very attractive entry point for investors looking for dividend income (6.8% dividend yield) as well as capital appreciation potential.

And while the consensus expectation is that natural gas prices will remain low for the foreseeable future, as supply continues to flood the market, what if the future is not so bleak?

Mixed data that shows higher demand as well as higher production has the market unimpressed, but strong demand growth is coming from power plants, as coal is being phased out and as certain nuclear plants are being retired.

Natural gas inventories lower: a very bullish sign

If we consider that gas in storage of 3,508 billion cubic feet (bcf) is only 0.23% higher than the five-year average, and that when storage falls below this average, it is typically a very positive sign for the natural gas market, and therefore natural gas prices, then we may have something to get excited about.

And positioning ourselves by investing in the lowest-cost, high-yielding natural gas company when it is trading at 52-week lows looks all the more appealing.

With Peyto, we get the lowest-cost intermediate natural gas producer and a 6.9% dividend yield.

And with this, Peyto is a rarity among intermediate natural gas producers. Total cash cost is \$4.11 per barrel of equivalent oil (boe), and Peyto's capital discipline has paid off handsomely.

In fact, the company earned a respectable \$0.69 in EPS and an ROE of 9% in 2016. And the average return on capital employed in the last 18 years was an impressive 17%.

Recall that these are the hard times, and an intermediate natural gas producer that generates an ROE of 9% in these times is rare. Peyto is leader of the pack in this respect.

Peyto's self-described counter-cyclical strategy means investing aggressively when industry activity and natural gas prices are low and holding back when industry activity and prices are high. This has played a significant part in allowing the company to deliver superior shareholder returns.

And this is the kind of company that generates shareholder value, regardless of its industry.

Since 2010, Peyto's production has increased from roughly 20,000 boe per day to almost 100,000 boe per day. The company's target production rate is 115,000-120,000 boe per day by the end of 2017, which they look set to achieve via their horizontal drilling program.

Capital discipline, stability, and above-average returns are what characterize this company. And these things are not a given in the oil and gas world.

## **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

## **TICKERS GLOBAL**

1. TSX:PEY (Peyto Exploration & Development Corp)

## **PARTNER-FEEDS**

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