



This Cheap Stock Can Soar 50% Next Year

Description

The market clearly doesn't like **Peyto Exploration & Development Corp.** ([TSX:PEY](#)) right now. From a year ago, the stock has declined almost 50%. The stock price needs to double to regain its level from one year ago. However, it'd still be an amazing gain if it could go up even just 50%.

A low-cost gas producer

Low natural gas prices have dragged on the shares, as Peyto is primarily a natural gas producer. However, the company has been doing its best to keep costs low over the entire production life to maximize returns regardless of the volatility of natural gas prices. Essentially, Peyto has a low-cost advantage, which equates to a 25-30% profit when the industry has none.

Profitability

In fact, Peyto managed to generate positive returns on equity every single year since 2007. Not even its bigger peers achieved that feat, which indicates how carefully the management allocates its capital. What's even more impressive is that Peyto has maintained a reasonable financial leverage range of 1.7-2.3 in that period.



Is the dividend sustainable?

Peyto has increased its dividend per share by roughly 83% since 2011.

Due to the share price pullback, the company now offers a yield of more than 7%, which raises the question, "Is its dividend safe?" After all, there have been too many dividend cuts from commodity-related companies in the recent past.

Since 2000, Peyto has only paid out dividends from its earnings. Management believes "profit is where dividends are supposed to come from, and that's where Peyto's come from."

Since Peyto never borrows to pay out dividends, there is a chance that if commodity prices, particularly, natural gas prices, fall low enough, it could cut its dividend.

However, given management's laser focus on costs and having the option to cut back on production if natural gas prices fall too low, the probability of a dividend cut is low.

What's the potential return?

The fact is, the shares have pulled back a lot. At about \$18.60 per share, the Street consensus from **Thomson Reuters** indicates that Peyto stock has upside potential of 49% in the next 12 months. Adding in the dividend yield of ~7% (assuming it doesn't get cut), there's a potential return of ~56% in the near term.

Investor takeaway

Winter is coming and more natural gas will be used to heat homes. So, we may see higher gas prices. In any case, Peyto trades at about 5.5 times its operating cash flow, while the stock's normal multiple is 10.3.

Peyto has become so cheap that it is now an attractive idea for explosive growth in the next 12 months should gas prices cooperate. For a 50% upside, we're asking for a multiple of about eight, which is still a long way off from its normal multiple. So, it's really not an aggressive target.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date

2025/08/10

Date Created

2017/10/13

Author

kayng

default watermark

default watermark