Contrarian Investors: Why These Dirt-Cheap Energy Stocks Are Set to Take Off

Description

Do you remember the last time you invested in a quality company in times of cyclical lows? While it can be unnerving, this is a strategy that pays off handsomely in the end. Let's look at three quality companies that are trading at lows because their industry (the natural gas industry) is at cyclical lows.

After years of experience analyzing stocks and the oil and gas industry, I know at least one thing for certain: it is extremely difficult to accurately predict commodity prices, and oil and gas prices are no different.

But there is one more thing that I have also learned: usually, the answer to low commodity prices is low commodity prices. Confused?

Let me explain. Through market forces, two things happen. First, low commodity prices necessitate that companies streamline their operations and become more efficient, thus producing at lower cost.

Second, lower prices eventually result in increased demand for the commodity, and the market eventually rebalances. Now the problem here is that timing is extremely difficult to predict.

But if we can invest in a company that has a healthy balance sheet and therefore the ability to survive in the hard times, we have the opportunity to make a significant profit.

Here are three natural gas stocks that currently have healthy balance sheets, strong and growing productions profiles, and quality, low-risk asset bases.

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

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. Its total cash cost is $4.11 per barrel of equivalent oil (boe), and Peyto's capital discipline has paid off handsomely.

Tourmaline Oil Corp. (TSX:TOU), with 85% of its production coming from natural gas, also has a very rapidly growing production profile, with production per share increasing at a cumulative average growth rate of 33% from 2010 to 2016.

And during this time, operating costs have been reduced dramatically from over $6 per barrel of oil to just over $3.

With a 78% natural gas weighting, **Birchcliff Energy Ltd**. (TSX:BIR) is also expecting strong production growth of almost 40% this year. And with its flexible balance sheet, which has a reasonable level of debt (25% debt-to-total capitalization ratio), the company is able to continue growing its production well into the future.

The message here is that with these stocks, we can wait patiently for the tide to turn on natural gas prices, and when it does, this patience will be greatly rewarded.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:BIR (Birchcliff Energy Ltd.)
2. TSX:PEY (Peyto Exploration & Development Corp)
3. TSX:TOU (Tourmaline Oil Corp.)

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