Why This Top Contrarian Pick Is Surging Almost 10% Today

Description

There is no shortage of contrarian stocks in the energy space these days. And the best among these is certain natural gas-focused companies that continue to rack in excellent results, despite persistently low natural gas prices.

Natural gas prices have been under pressure over the last many years, and the consensus expectations for these low prices is that they will remain with us for years to come. With production increasing at unprecedented speed in recent history, it does seem that this will be the case.

Certainly, the volatile swings in natural gas prices this summer, with prices hitting negative territory at one point, do nothing to inspire confidence.

But what if things are slowly changing?

Natural gas storage is now below five-year average

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A very bullish sign I am focused on right now is the natural gas storage numbers, which have fallen below five-year average levels. This is historically a very bullish sign for the natural gas supply/demand balance and, ultimately, natural gas prices.

Against this backdrop, we have **Tourmaline Oil Corp.** (TSX:TOU), up almost 10% at the time of writing, which just reported a third-quarter production increase of 40% — a 35% increase in cash flow to $857 million — and an 8% reduction in operating costs.

The company also announced that it will start paying a modest dividend as of January 2018.

Who would have thought that a producer could generate this kind of cash flow in this type of environment?

Well, some can and are doing just that.

Another very interesting natural gas play is **Peyto Exploration and Development Corp.** (TSX:PEY), which currently yields 7.2% and continues to post outstanding results, with production growth and cost reductions continuing to bring value to the company and its shareholders.

Peyto's third-quarter results were, once again, strong, with EPS increasing to $0.27 from $0.14 in the same quarter last year. Funds from operations increased 9% to $139 million.

Peyto has recently shifted much of its drilling to horizontal drilling, which brings with it greater efficiencies and a strong production profile going forward.

The cure for low prices…

… is low prices. This old adage holds true for two reasons. First, low prices ensure that companies become more efficient out of necessity; second, eventually, low prices will lead to companies reducing production to curb losses and maximize profits, hence rebalancing the market.

To be sure, timing is everything and very difficult to predict, but both Tourmaline and Peyto have announced that they are scaling back on capital spending and production next year in response to low prices.

And with natural gas demand from utilities and industry strengthening, we have a solid business case here.

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TICKERS GLOBAL

1. TSX:PEY (Peyto Exploration & Development Corp)
2. TSX:TOU (Tourmaline Oil Corp.)

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