Seasonal Trade: Natural Gas Sector Setting Up for a Strong Winter

Description

With the weather forecast in Canada calling for lots of snow and "arctic blasts," I am looking for the bright side of this news. There's the skiing, the white Christmas, and all the winter wonderland sights and sounds to soak up.

And then there's the effect this will have on the oil and gas companies that benefit from this frosty weather forecast; namely, natural gas producers that will see an uptick in demand and the resulting increase in pricing that they so desperately need after so many years of weakness.

This seasonal play is a great play this coming winter, as many of these natural gas producers are trading at cyclical lows, yet they have been improving their production profiles, their cost profiles, and their overall ability to function and profit at lower natural gas prices.

With 84% of its production coming from natural gas, **Tourmaline Oil Corp.** (TSX:TOU) is well positioned to benefit from the cold winter ahead and rising natural gas prices.

In the latest quarter, the second quarter of 2017, the company reported positive free cash flow of $17.3 million, a 27% increase in production, and costs that continued to fall. Second-quarter operating costs fell 6% to $3.22 per boe and were ahead of the company's $3.50 target.

The company expects to grow production at a slightly lower rate next year, as it is focusing on more profitable growth, but the company stands ready to increase production as natural gas prices rise.

With a 78% natural gas weighting, **Birchcliff Energy Ltd.** (TSX:BIR) is also experiencing strong production growth. In the latest quarter, the second quarter of 2017, the company reported a 64% increase in production, increasing cash flow of $88.6 million (an increase of 568%), and decreasing operating costs (down 11% to $4.67 per boe).

The company's balance sheet remains in excellent shape, with a 25% debt-to-total-capitalization ratio.

Subsequent to the quarter's end, Birchcliff announced the expansion of one of its natural gas processing plants, which will increase processing capacity by 40% at the facility.

Lastly, **Peyto Exploration and Development Corp.** (TSX:PEY) is another natural gas producer that is setting up for a very profitable winter.

With 90% of its production being natural gas, this company has, of course, also suffered through the recent history of low natural gas prices, only to continually strengthen its business. It continues to stand out as the lowest-cost intermediate natural gas producer.

As a bonus, the stock has a dividend yield of 6.95%, which is easily covered by cash generated from operations.

Given that these companies continue to perform exceptionally well operationally and continue to trade at depressed levels, we can expect the shares to rally this winter off seasonally cold temperatures and a probable rally in natural gas prices.

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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