2 Stocks Trading at 52-Week Lows: Time to Buy?

Description

How would you feel if I told you I know a company that is currently yielding over 8%? Interested?

Despite that the company continues to make money in this environment, the market is still punishing **Peyto Exploration and Development Corp.** (TSX:PEY) for being a producer of, you guessed it, one of the most-hated commodities out there: natural gas.

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But by stepping back a little and focusing on the company itself, we get a completely different perspective.

Further to this attractive dividend yield, what if I told you that this company consistently generates returns that are top notch and attractive for any industry, but especially for the industry that it's in.

With returns on capital employed consistently hovering close to 20%, and a dividend-payout ratio (on operating cash flow) of 42%, it is clear that the company has been a good steward of investors' capital.

And with a net debt balance of $13 billion for a net-debt-to-equity ratio of 76% and a net-debt-to-cash-flow multiple of 2.3 times, which is lower than most of its peer group, Peyto's balance sheet is still acceptable.

So, Peyto is in good shape financially. And the company remains free cash flow positive, although, if we include distributions, it turns free cash flow negative.

And the fact that management has decided to cut its 2017 capital-spending plans to $530 million from original plans of $575 million, and compared to $469 million last year, will help lessen this discrepancy, which may be part of the reason that management decided to cut back on its capital spending.

But mostly, the cut was made in response to persistently low natural gas prices, as management has been very vocal about and has a good track record of growing profitably, and not just for the sake of growing.

Advantage Oil and Gas Ltd. (TSX:AAV)(NYSE:AAV) is another natural gas company that is trading at

52-week lows. Although the company is also of high quality, with an enviable balance sheet and a low cost structure, its premium valuation keeps me on the sidelines.

Trading at roughly eight times cash flow (compared to Peyto at roughly five times), I prefer to stick with Peyto, the lowest-cost, less-expensive play at the moment.

Both Peyto and Advantage have announced that they are scaling back on capital spending and production next year in response to low prices, and this is good news for two reasons.

First, it means they are refusing to produce at levels that are not profitable enough; second, these are small steps on the path to the rebalancing of the natural gas market.

And with demand from utilities and the industry strengthening, we have a business case.

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1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:AAV (Advantage Oil & Gas Ltd.)
2. TSX:PEY (Peyto Exploration & Development Corp)

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