Contrarian Investors: Could This Natural Gas Stock Soar in 2018?

Description

When I considered writing about this stock and recommending it as a top contrarian pick, I have to admit, questions and uncertainty linger.

But hey, isn't that what sometimes comes with being contrarian? As the years progress, and we accumulate experience, we become more comfortable with each contrarian pick, but in the meantime, we must plough through the uncertainty.

I mean, the last contrarian pick that stirred up these feelings in me was **Labrador Iron Ore Royalty Corporation** (TSX:LIF), and I will tell you how that turned out.

Back in 2015, everyone was saying that iron ore prices were staying low and maybe even going lower, as Chinese demand would dry up, and supplies would continue to rise.

But Labrador Iron Ore has top quality iron ore, with top iron ore grades and industry-leading costs, and the downside appeared limited with big upside. What happened next was a more than 100% increase in its stock price and numerous increases in its dividend as well as special dividends, as iron ore prices rose.

So, on to **Peyto Exploration and Development Corp**. (TSX:PEY).

In Peyto, we have a top-tier natural gas producer that is making money, even at today's dismal natural gas prices, and it has an industry-leading cost structure.

With the demand/supply balance being very bearish for a long time now, it is no surprise that investors would probably want to stay away from Peyto, despite the fact that this is a very high-quality company.

Since 2010, Peyto's production has increased from roughly 20,000 boe per day to almost 100,000 boe per day. The company achieved its target production rate of 115,000 boe per day in 2017.

The company has responded to difficult times by reducing its dividend and capital-expenditure program to ensure its long-term success.

When Peyto cut its dividend earlier this month, the stock rallied in response. The dividend yield fell from almost 9% to the current 5.7%, but the payout ratio also fell, of course, leaving investors more comfortable with the company's financials.

For patient investors, buying Peyto at the worst of times means getting a high-quality natural gas producer at bargain prices — if we can withstand the stress.

The stock is down 63% since January 2017, even though cash flow from operations increased 11% in the first nine months of the year, and the company is actually free cash flow positive — something to think about. This could be a big opportunity.

The company reports its 2017 results on March 1.

Could this stock be one of the next surprise market outperformers?

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