Contrarian Investors: Everyone Hates Natural Gas Stocks. Time to Buy?

Description

The consistent theme in the natural gas industry in Canada has been the lack of pipeline access, which has resulted in increasing storage, driving down prices.

Furthermore, while the demand market got a boost from cold weather, it was not as dramatic as investors were hoping for, and on the flip side, supply has kept rising quickly. These issues have led to weak regional pricing and the general underperformance of natural gas stocks.

A glimmer of hope, however, resides in two recent developments.

First, the Chinese market is working toward increasing its natural gas usage, which would drive up global demand, and second, **Royal Dutch Shell PLC** (NYSE:RDS.A)(NYSE:RDS.B) is reporting that the LNG market is booming and that it could face a shortage by mid 2020s.

This raises the possibility of Royal Dutch's British Columbia LNG project getting approval sooner rather than later. And it means that Canadian producers could be getting closer to having a market outside North America for its natural gas, which would be a big boost to demand and prices.

In the meantime, here are two natural gas stocks that are a contrarian investor's dream. They are high-quality companies that are generating strong earnings and cash flow in a terrible environment. They are making money, even with extremely depressed natural gas prices.

Against this backdrop, we have **Tourmaline Oil Corp.** (TSX:TOU), which just reported a 31% increase in 2017 production, a 65% increase in cash flow to $1.2 billion, and significant reductions in costs. The company even just instituted a dividend, and while the yield is below 2%, it is supported by free cash flows.

With a strong and flexible balance sheet, a large land position, and management/directors' ownership of 21% of the shares, Tourmaline is a contrarian play that has massive upside to rising natural gas prices.

This is also a great time to snatch up industry-leading **Peyto Exploration and Development Corp.** (TSX:PEY

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The company just posted its 18th consecutive year of profits, with a 55% increase in EPS and a 12% increase in funds from operations.

The stock is down big, while cash flow from operations increased 10% in 2017, and returns have been industry leading. And with Peyto, we get the lowest-cost intermediate natural gas producer and a 7.2% dividend yield.

For 2018, the effective payout ratio will be well below 100%, as management has decided to cut back on capital expenditures in response to persistently low natural gas prices.

Who would have thought that a producer could generate these kinds of cash flows in this type of environment?

Well, Peyto and Tourmaline can and are doing just that.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

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

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