Beat the TSX With These Contrarian Stocks

Description

Birchcliff Energy Inc. (TSX:BIR) soared almost 10% yesterday and is up again today to the tune of 5%, as oil and gas prices continue to see strength amid global turmoil threatening oil production in Venezuela and the Middle East, as well as increasing talks of LNG projects in Canada.

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Can investors beat the TSX by investing in oil and gas stocks? Let's take a closer look.

Hope for natural gas

The Chinese market is working toward increasing its natural gas usage, which has driven global demand and should continue to drive it. **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.

Royal Dutch is aiming to start construction on the multi-billion-dollar LNG project in Kitimat this year, and with approvals in hand and support from the First Nations community and Asian partners such as **PetroChina Co. Ltd.**, we may be starting to see the light at the end of the tunnel.

So, all of this raises the possibility of the Shell-led 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.

Current state

With Canadian natural gas prices having been down in the dumps for so long, it is understandable that investors have been hesitant to invest in producers. But, in terms of the business, it is not all bad, as falling prices have been countered by a reduction in costs, and many producers have reduced costs to the point where they are still able to generate healthy cash flows.

With an 80% natural gas weighting, Birchcliff Energy is experiencing strong production growth.

In the latest quarter, the fourth quarter of 2017, the company reported a 32% increase in production, increasing cash flow of $97 million (an increase of 35%) and decreasing operating costs (down 15% to $3.86 per boe).

Consistent, quality producer

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

The stock is rallying over 4% today, but it's down over 30% year to date. However, the company continues to generate shareholder value, even in this depressed natural gas market.

The company 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.

With Peyto, we get the lowest-cost intermediate natural gas producer and a 6.7% 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?

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CATEGORY

1. Dividend Stocks
2. Energy Stocks
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TICKERS GLOBAL

1. TSX:BIR (Birchcliff Energy Ltd.)
2. TSX:PEY (Peyto Exploration & Development Corp)

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