



Is There Hope for These Natural Gas Stocks?

Description

[Natural gas stocks](#) have generally done poorly in the last year. **Peyto Exploration & Development Corp.** ([TSX:PEY](#)) stock has declined +50%, and **ARC Resources Ltd.** ([TSX:ARX](#)) stock is down ~18% in the period.

However, in the last month both stocks have rallied strongly from their lows. Peyto stock has appreciated nearly 16%, and ARC Resources is up ~17%. Are the stocks turning around for real?

Technically

One way to tell if stocks are turning around is by looking at their technical charts. Here's what I see from the charts of Peyto and ARC Resources: neither stock has broken out of their downtrends yet. When they do, it'll be signaled by higher highs and higher lows.

Peyto stock has a resistance at ~\$12.30 per share. So far this week, the stock has bounced off of that resistance. After Peyto breaks above that resistance, there's another one waiting for it at ~\$14 per share. Even when the stock goes above ~\$14, it'll still be a long way off from its two-year high of \$38 per share.

ARC Resources stock's resistance is at ~\$15.40 per share. Its next big resistance is at ~\$18 per share, which will still be ~37% off from its two-year high of ~\$24.70 per share.



Image source: Getty Images.

Recent results

In 2017, Peyto's production per share and reserves per share increased 4% and 9%, respectively. It also generated funds from operations of ~\$574 million and paid out ~\$218 million of dividends for the year, which equated to a payout ratio of ~38%.

However, if you account for the ~\$521 million of investments, including drilling programs that added to its production, then Peyto only had ~\$53 million left for dividend payments. So, it wasn't surprising when the stock slashed its dividend by 45% early this year.

In 2017, ARC Resources generated funds from operations of ~\$732 million (an increase of 15% to \$2.07 on a per-share basis) and paid out ~\$212 million of dividends for the year, which equated to a payout ratio of ~29%. However, if you account for the investments of ~\$930 million, its dividend wasn't sustainable. That said, in the short run, there are ways for companies to help pay their dividends if they wished to do so.

Investor takeaway

The natural gas industry is a tough space to operate in because of low natural gas prices. It goes without saying that it's also [a tough space to invest in](#) for retail investors. However, when the cycle turns, both stocks should be trading much higher. Peyto stock could reach the \$30s, and ARC Resources stock could reach the \$20s. Investors just need to be very patient.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:ARX (ARC Resources Ltd.)
2. TSX:PEY (Peyto Exploration & Development Corp)

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