Are These Energy Stocks Screaming Buys or Value Traps?

Description

For value investors, this market has been a difficult one.

In a time when it seems that investors are only paying attention to and paying up for growth stocks, it can get frustrating for value investors.

Here I present to you two energy stocks that represent contrarian value plays that may not be for the faint of heart.

Nevertheless, I think they are definitely at least worth considering because the market is not giving these stocks any credit, and herein lies the opportunity.

Peyto Exploration and Development Corp. (TSX:PEY).

Peyto 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.

New positive developments include Peyto's 15-year gas deal with an Alberta-based power producer, renewed talks of LNG plant construction, and increased natural gas usage by the Chinese.

And with Peyto, we get the lowest cost intermediate natural gas producer and a 6.8% 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.

Tourmaline Oil Corp. (TSX:TOU)

Tourmaline 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 instituted a dividend in 2017, and an 11% increase in its dividend in the most recent quarter. The dividend yield is now a very reasonable 1.66%, and it is supported by free cash flows.

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

Finally, **Encana Corp**. (TSX:ECA)(NYSE:ECA) is a good option for those investors seeking a company that is less leveraged to natural gas.

With only 55% of its production being natural gas, compared to well over 80% for Peyto and Tourmaline, Encana has the benefit of having leverage to natural gas while also benefiting from strong oil prices today.

In 2017, Encana reported a 58% increase in operating cash flow, and given the company's five-year plan for maximizing cash flow and increasing margins as well as its enviable asset base, we can expect good times in 2019 and beyond.

In summary, these energy stocks will see their value being unlocked with the rise of natural gas prices, and investors who are patient may want to consider getting in now.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

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Author
karenjennifer