2 Energy Stocks Whose Massive Upside Is About to Be Revealed

Description

For those investors who are natural gas bulls, there is no shortage of data out there to get you to second guess your position on the commodity.

From rising production to abysmal pricing for Canadian natural gas to a lack of pipeline capacity, not even the glimmer of hope that comes with resuscitated talks of LNG projects opening the Canadian gas market to global forces seem to be enough.

I should know; I have been and still am a bull. I have learned through my career that there is no better cure for low prices than low prices. I have seen this happen with a variety of commodities.

Low prices adjust the whole supply/demand dynamic and set up a new up-cycle in the highly cyclical game of commodities.

But investors need patience and thick skin in this waiting game. Of course. this is a bit of a simplification, but nevertheless, it is true.

Luckily, in the natural gas space, we have some very high-quality companies that have been stuck in this down cycle, but that have nevertheless been able to turn a profit and continue to generate value. They are energy stocks that are also dividend stocks.

Imagine what they could do in an up-cycle, with stronger pricing!

Peyto Exploration and Development (TSX:PEY)

In 2017, Peyto posted its 18th consecutive year of profits, with a 55% increase in EPS and a 12% increase in funds from operations.

But Peyto stock is down big in the last year and is trading at less than half what it was trading at back then.

With a dividend yield of more than 6%, investors are clearly worried that this is unsustainable, and they are taking the stock down, fully expecting a dividend cut.

But I think not.

Cash flow from operations increased 10% in 2017 and declined 4% in the first six months of 2018, and funds from operations in the first six months of 2018 covered both capital expenditures and dividend payments and exceeded them by $155 million, as management has adjusted capital spending in this low-price environment.

And Peyto stands ready to increase drilling when natural gas prices strengthen.

Returns continue to be industry-leading, as cash costs remain top tier and the company’s realized price of $3.20 per million cubic feet of natural gas was 184% higher than the AECO daily price average.

Tourmaline Oil (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 1.9%, 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 that has massive upside to rising natural gas prices.

Conclusion

In summary, these energy stocks will see their value being unlocked with the rise of natural gas prices, but while they wait, these companies have been increasing their liquids production to take advantage of liquids pricing and rewarding shareholders through their dividends.

Patient investors 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.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/24
Date Created
2018/09/23
Author
karenjennifer