When Cyclical Lows Provide Money-Making Highs

Description

We all know the story.

Certain industries, especially commodity industries, are very cyclical.

And when cyclical lows strike, we can get trapped in a seemingly never-ending downward spiral that just months ago was unfathomable.

Buy low, sell high. Simple, right?

Well, yes, in theory. In practice, it's much more difficult.

But at the end of the day, those who can implement this strategy of buying stocks at cyclical lows can end up making a fortune.

The natural gas industry has been suffering in a sea of over-production, pipeline constraints, and a lack of big demand drivers for almost 10 years now.

But now we have real signs that this may be changing.

Natural gas inventories remain below five-year averages, which has traditionally been a buy signal despite talks of too much supply and relentlessly rising production.

We have the approval of LNG Canada's project that will ultimately open up the demand side of the equation and eliminate the discount that aeco (Canadian natural gas price) has been trading at relative to nymex (New York exchange natural gas price) and natural gas prices worldwide, which are much higher.

As we decide to enter this space, we therefore need to be aware of the fact that the timing of a recovery is uncertain, and so we need to limit our companies to those that have strong balance sheets and competitive advantages.

Here are three such natural gas stocks.

With 89% of its production being natural gas, **Peyto Exploration and Development Corp**. (TSX:PEY) is very well positioned to reap the rewards of strengthening natural gas prices.

Peyto just posted its 18th consecutive year of profits, with a 55% increase in EPS and a 12% increase in funds from operations. Peyto stock is down 62% in the last five years, but has recently seen strength as these developments have taken place.

The stock is up almost 20% from its August lows.

Its dividend yield of 6.16% is covered by cash flow from operations, which increased 10% in 2017. Although it declined 4% in the first six months of 2018, it still exceeds both capital expenditures and dividend payments by $155 million, as management has adjusted capital spending in this low price environment.

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.

With an 82% natural gas weighting, **Tourmaline Oil Corp**. (TSX:TOU) also stands to benefit big in a rising natural gas price environment.

With a strong and flexible balance sheet, a large land position and management/director ownership of 21%, Tourmaline has massive upside to rising natural gas prices.

With a 60% natural gas weighting, **Nuvista Energy Ltd**. (TSX:NVA) is expecting strong production growth of almost 20% this year.

With its flexible balance sheet that has a reasonable level of debt (20% debt to total capitalization ratio), the company is able to continue growing its production well into the future.

The message here is that with these stocks, we can wait patiently for the tide to turn on the very cyclical natural gas industry. Once it does, this patience will be greatly rewarded.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:NVA (NuVista Energy Ltd.)
2. TSX:PEY (Peyto Exploration & Development Corp)
3. 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
2025/09/29
Date Created
2018/10/25
Author
karenjennifer