Can a Cold Winter Save These Natural Gas Stocks?

Description

It's been a tough for investors to invest in **Peyto Exploration & Development** (TSX:PEY) and **Birchcliff Energy** (TSX:BIR) as their business performance is largely affected by the ups and downs of the underlying commodity prices. So, their stock prices are also much more volatile than the market.

It's not easy trading the stocks. Since 2011, Peyto has traded as low as the current levels of under $10 per share and as high as the $40 range, while Birchcliff has traded as low as the current levels of $3 and change per share and as high as the $15 range. Most of the time, the stocks trade much lower than their highs.

Both companies are oil and gas producers that are natural gas weighted — about 91% and 79%, respectively, of Peyto's and Birchcliff's production is North American natural gas. Unfortunately, there has been an abundance of natural gas and limited pipeline to get the commodity to the market, as a result, AECO gas prices have been ridiculously low.

Image source: Getty Images.

Let's take a look at Peyto and Birchcliff to see which may be a better buy today.

Peyto Exploration & Development

Peyto is the fifth-largest gas producer in Canada. It owns and operates its own gas plants, which allows it to be a low-cost producer, and as a result, its recent margins and returns have been decent compared to Birchcliff's.

Peyto's recent net margin was 30.8%. Its five-year return on assets (ROA), return on equity (ROE), and return on invested capital (ROIC) are about 5.4%, 11.2%, and 7.9%, respectively. Its trailing 12-month ROA, ROE, and ROIC are about 4.4%, 9.6%, and 6.8%, respectively.

At $9.63 per share as of writing, Peyto trades at about 3.2 times cash flow. The analysts from **Thomson Reuters** have a 12-month target of $13.20 per share on Peyto, representing near-term upside potential of 37% in the stock.

Currently, Peyto offers a 7.5% yield. However, it can cut its dividend if its earnings fall too low due to low commodity prices.

Birchcliff Energy

Birchcliff's recent net margin was 9.5%. Its five-year ROA, ROE, and ROIC are 1.2%, 2.3%, and 2.6%, respectively. Its trailing 12-month ROA, ROE, and ROIC are about 2%, 3.1%, and 3.2%, respectively.

At $3.46 per share as of writing, Birchcliff trades at about 2.9 times cash flow. The analysts from Reuters have a 12-month target of $6.64 per share on Birchcliff, representing near-term upside potential of nearly 92% in the stock.

Birchcliff offers a 2.9% yield, and it has a lower chance of a dividend cut than Peyto.

Investor takeaway

Usually, winters help boost natural gas prices as natural gas is used to warm homes. However, this winter will only last a few months. So, at best, it'll give a noticeable boost to the natural gas stocks, but it won't be enough to turn the stocks around.

Between the two stocks, Birchcliff has lower debt ratios and trades at a cheaper valuation. So, I'd consider buying Birchcliff over Peyto today. As we're in tax-loss selling season, interested investors should be careful and look for a technical bottom before considering a purchase.

It's actually very tricky to trade these stocks. So, conservative investors should consider lower-risk energy infrastructure stocks, such as **Enbridge** for safer income and more stable growth.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/18
Date Created
2018/12/06
Author
kayng