Why I'm Piling Into This Oil and Gas Stock After Its Dividend Cut

Description

Last week, **Peyto Exploration and Development Corp.** (TSX:PEY) made the well-anticipated move to lower its dividend after months of speculation.

So the monthly dividend was slashed from $0.06 per share to $0.02 per share, along with capital expenditure plans.

That's pretty steep.

But this is a sign of the times, as companies need to take action to ensure their survival.

Make no mistake: Peyto and many other energy companies are expecting good times ahead, as we can expect stronger natural gas pricing in the next several years as pipeline capacity is increased and as the LNG market opens up.

There is but one caveat to these good times.

The company has to survive — not an easy thing in this bloodbath environment that natural gas companies find themselves in.

But if Peyto survives, long-term shareholders can get a quality stock at dirt cheap prices, offering:

Excellent operators

Since 2010, Peyto's production has increased from roughly 20,000 boe per day to almost 120,000 boe per day.

Although production is set to decline in 2019 due to reduced spending, the company expects to increase production thereafter as a result of its increasing focus on higher margin liquids production.

Furthermore, in 2019, cash flows should look better, as 20% of volumes will be exposed to U.S. natural gas pricing and as the company increasingly shifts drilling focus to liquids.

Excellent assets

Peyto's lands in the deep basin in Alberta have vast, sweet, liquids-rich natural gas resources with lower recovery risk and more predictable production profiles than conventional reservoirs.

Additionally, in the second half of 2018, Peyto accumulated a large block of Montney rights at cyclical lows. This is early stage, but this prolific area is seeing increasing land expiries, which Peyto expects to take advantage of in order to amass an inventory of drilling locations as pricing recovers.

Excellent position

As the fifth-largest natural gas producer with one of the lowest cost profiles, Peyto has a significant presence.

Furthermore, as a company with a counter-cyclical culture, Peyto is buying assets and investing in these assets at lows, while positioning itself for the next boom, which is closer than ever.

Final thoughts

In summary, Peyto is calling this dividend cut a "temporary dividend cut."

This makes sense, as it is the company's goal to deploy capital where it makes sense given the various macro environments. And at this time, it makes sense for them to reinvest in the company and to redirect cash flows to preserve the balance sheet.

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