3 Ways to Play a Natural Gas Recovery

Description

It's cold — really cold — outside at the moment. The heating bills are starting to pile up, which brings to mind once again the fuel responsible for supplying a large portion of the energy required to keep houses in Canada warm: natural gas. Over the past several years, the clean-burning fuel and its associated companies have suffered the same fate as other fossil fuels. Stock and commodity prices have continued their march downward, leaving many investors to flee the sector.

default watermark

It's been a tough time to be a fossil fuel investor. Every time you look at a company, it's progressively cheaper, making each passing day appear to be a better time to build a position than it was the day before. But down the prices continue to go. Even hardened value investors are having a hard time pulling the trigger on these stocks. But if you're looking for cheap stocks, natural gas companies are certainly at the top of the list.

Tourmaline Oil (TSX:TOU)

Once a darling of the sector, Tourmaline has not been immune to falling commodity prices. The stock is currently trading at essentially an all-time low, definitely making it worth a look if you are interested in taking a stab at natural gas stocks. The low price is accompanied by a similarly low valuation, with a trailing price-to-earnings ratio of 14 times earnings.

Tourmaline has a small dividend of 2.22%, which provides some incentive to hold on to the stock. The company is currently one of the largest natural gas producers in Canada, which could be beneficial if gas prices begin to recover.

Birchcliff Energy (TSX:BIR)

With operations in the highly sought-after Montney resource area, Birchcliff has excellent opportunities for expansion and development. Production has been increasing steadily over the years, up 22% year over year. Cash flow per share increased 17% over the same period, leading potential investors to believe its productivity could lead to considerable profit in a more positive commodity environment.

Birchcliff has a good dividend of 3.11% at the moment. While the past few years should have taught investors that you can put too much faith in the dividend of commodity companies, the dividend should be safe for the time being.

Peyto Exploration & Development (TSX:PEY)

As the fifth-largest natural gas producer in Canada, Peyto is positioned to take advantage of a turnaround in the sector. It is one of the lowest-cost producers in the nation — a fact that will likely lead to serious profits in the event of a return to higher prices.

Speaking of dividends getting hacked and slashed, Peyto has been a poster child in that regard. While the company pays a half-decent yield of 3.5%, it is a shadow of its former self. Nevertheless, Peyto is a low-cost producer in the natural gas space and stands to benefit from a turnaround in the sector.

default watermark

So, what's an investor to do?

In spite of the fact that these companies have performed terribly over the past several years, surely there can't be a whole lot more downside. They have been decimated, are trading at practically all-time lows, and are operating quite well in spite of it all. If you want to take a swing at the sector, it certainly is cheap.

But the one thing that the last few years of looking at and occasionally investing in the oil sector has taught me is that things can always get cheaper. But if things do turn around, getting in at these prices will have an enormous amount of potential upside for investors who can take the (hopefully) short-term pain.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:BIR (Birchcliff 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
2025/07/19
Date Created
2019/01/29
Author
krisknutson

default watermark

default watermark