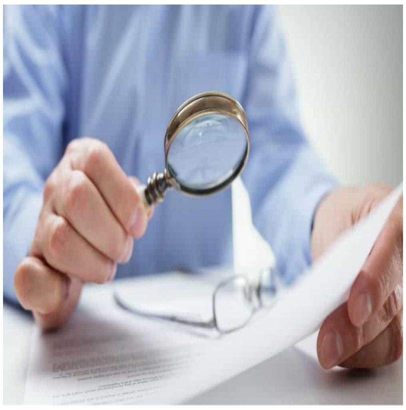

3 Small-Cap Commodity Stocks for Bargain Hunters

Description

Investing in commodity producers can be difficult. Resource companies — from gold miners to oil producers — typically face above-average levels of volatility.

While hedging can help reduce uncertainty, most commodity companies experience wild boom-and-bust cycles, sometimes within the same year.

However, volatility can be your friend, giving you limited-time buying opportunities at bargain prices. When looking at small-cap commodity companies, these discounts can be even more attractive.

The following companies are small-cap resource stocks thrown into the market's bargain bin, with shares down 60-90% from their highs.

Seven Generations Energy (TSX:VII)

With a $3.6 billion market cap, Seven Generations is the largest company on this list. Still, as early as 2017, the company had a $10 billion valuation. What's happened?

In December of last year, the government of Alberta forced a mandatory cut of 325,000 barrels per day on to producers, given that regional energy prices were trading at a 50% discount to production in the United States. With nearly all of its properties located in Alberta, Seven Generations was sold off heavily, as with nearly every other local peer.

Still, at current oil prices, the company should generate a profit. In fact, 2018 fund flows hit $1.67 billion ($4.60 per share) — a 36% increase over 2017 levels.

If oil prices are sustained at US$60 per barrel, the company should be able to pay down significant portions of debt this year. At US$70 per barrel, this stock looks to have 100% upside or more based on operating leverage.

Peyto Exploration & Development (TSX:PEY)

Shares of Peyto Exploration are down around 80% from their highs in 2017. With its market cap down to just $1.3 billion, the company is now solidly in small-cap territory.

Still, as Canada’s fifth-largest natural gas producer, it still has the scale necessary to avoid insolvency.

Management firmly believes that natural gas is the “fuel of the future.” Impressively, it’s one of the only pure-play producers to generate consistent profits over the years, thanks to its incredibly low cost of production.

With costs now down to US$2.30 mcfe, Peyto should have no problem surviving for another decade. It still has 25 years left of 2P reserves, so it has time to be patient. If natural gas markets ever rebound from their multi-year bear market, this stock will have plenty of upside.

Paramount Resources (TSX:POU)

The smallest company on this list, Paramount now has a market cap of just $950 million. Shares are down more than 90% from their 2014 highs — a humbling blow for a company that once had a $10 billion valuation.

What’s so special about Paramount? Currently, management owns roughly 46% of the company, so out of any company on this list, Paramount’s executives have the most incentive to turn things around quickly.

While its debt load is high, the company owns shares in several public companies, including **MEG Energy**. At any time, it could raise around $100 million by offloading these assets.

As Matt Smith summarized in December, “Paramount appears undervalued once the intrinsic value of its oil and gas reserves is considered. That — along with its high-quality acreage and ability to grow low-cost production — makes it an appealing play on higher oil and gas prices.”

CATEGORY

1. Energy Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:PEY (Peyto Exploration & Development Corp)
2. TSX:POU (Paramount Resources Ltd.)

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