



Long-Term Investors: This Oil and Gas Stock Could Double in the Next 12 Months

Description

Natural gas is considered to be the fuel of the future. Although the oil and gas industry in Canada has been tough for investors recently, it is still an important sector in the economy that should not be ignored. Long-term investors have an advantage, though, if they know what to look for, because they can buy companies at attractive prices and wait for the commodity pricing environment to strengthen.

Low-cost exploration and development companies are always the best to start with. The low-cost nature is important in any commodity business since every company is essentially a price taker. The low-cost production abilities, however, are not enough to make a company successful on its own. The company also needs to have a great management team, solid cash flow fundamentals, and a respectable level of debt.

One stock that is positioned well for the future of natural gas is **Peyto Exploration & Development (TSX:PEY)**. Peyto is a low-cost [natural gas producer](#) with a great management team in place. The company is extremely flexible and able to pump more or less gas depending on the pricing environment and demand for gases. This puts Peyto in a strong position for long-term investors, as it has a decent competitive advantage and the company is run extremely well.

Low-cost producer

Peyto is one of the lowest-cost producers in Alberta. It is able to pump gas out of the ground for approximately \$0.70 per thousand cubic feet. To put this in perspective, many of its peers have costs around \$1.50 to pump that same amount of gas. This is a big advantage in the commodity space.

It also helps that Peyto is very flexible and can shut off and turn on drilling according to the pricing environment. Recently, the pricing environment for liquids has been better than for gasses. Peyto has responded by pumping more liquids and less gasses to realize this disparity in pricing. The flexibility of its wells is useful, as it can capture the maximum possible revenues even in an unfavourable pricing environment.

Solid and transparent management

The management team, headed up by president and CEO Darren Gee, has done a great job. Gee is very intelligent and transparent. He keeps shareholders informed of the day-to-day decisions by writing his president's report every month. In the report, he mentions what has been going on at the company, what the strategy is moving forward, and why management is making the decisions they are making.

He also highlights expected monthly production levels and capital spending. This part of the report is very important, as changes can come and go monthly as the gas pricing environment changes. Management has done well at allocating capital, especially when it doesn't make sense to drill additional gas. Additionally, the debt load has been a bit of an issue in the past; however, management has addressed that by cutting the dividend and scaling back unnecessary capex.

Financial and company position

Peyto has a deep inventory of gasses in the Alberta Deep Basin. In the history of the company, it has been able to generate \$0.40 in earnings for every dollar invested. These returns are among some of the highest in the industry. The company has also achieved 17 consecutive years of profitability.

Gee and the rest of management have been planning for the future when a pipeline can be built. Although these things can take a while due to the regulatory processes, the company has been biding its time and operating conservatively. Once new pipelines are built, it will allow the company to expand its drilling to meet the excess capacity available to be transported and sold elsewhere.

The bottom line

Peyto is the ideal stock for long-term investors. It is a perfect fit because it is a low-cost producer, which gives it a competitive advantage over most of its peers. Its also ideal because it has solid fundamentals, which have been proven with 17 consecutive years of profitability. Investors who can be patient and stomach some potentially poor natural gas pricing in the short run should eventually be rewarded.

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