3 Natural Gas Stock Picks for July

Description

It's been tough to make money with natural gas stocks.

From 2003 to 2007, natural gas prices ranged between $8 and $10. By 2008, prices began their decade-long decline. Since 2012, they've averaged just $3.

Investors have been calling a bottom for years, but today, it looks like the market has finally given up on a long-term rally. That's pushed the stock prices for some natural gas producers to ridiculously cheap levels.

Even if prices stay depressed permanently, it's hard to argue that the following companies aren't dramatically undervalued.

If you've been waiting to bottom-pick the natural gas industry, now is your chance. Expectations have never been lower — that's a gift to patient investors looking for major upside.

Way out of favour

Peyto Exploration & Development (TSX:PEY) peaked at $42 per share in 2014. Today, the stock is down to $3.90 apiece, resulting in a market cap of only $640 million.

Despite its diminutive size, Peyto remains the sixth-largest natural gas producer in Canada. While most competitors focus on a balance of oil and gas production, Peyto is pretty close to a pure play on natural gas.

Its current reserves should last another 25 years, and its production costs are the lowest in the industry at just $0.92 mcfe.

While the stock is being priced for bankruptcy, it's hard to see the company ending in insolvency. Long-term debt currently stands at $620 million, but the interest rates are incredibly low at 3.7-4.9%. Peyto also has a committed credit line worth $570 million that it can draw from.

Natural gas stocks are out of favour, but over many decades, Peyto has proven it can deliver shareholder wealth.

In 1998, the stock debuted at $0.08 per share. Even after the fall, the current share price of $3.90 still represents a healthy profit, especially if you factor in the dividend, which currently stands at 6.1%.

If you can buy and hold for a decade, this is a compelling option.

Bet it all

Nuvista Energy (TSX:NVA) topped out at $12 per share in 2014. Today, the stock has slumped to just $2.60 apiece — good for a market cap of just $590 million.

Shares have been crushed over recent months. Since the end of June, the stock is down roughly 40%.

If you're considering a high-risk, high-reward investment, Nuvista fits the bill.

Debt levels seem high but reasonable, production is on the rise, and the company has huge leverage to rising natural gas prices. For every US$0.25 increase in prices, Nuvista would receive $60 million in additional cash flow — that's nearly 10% of the company's entire valuation.

If you're confident in higher natural gas prices, there are few better options than Nuvista stock.

Stick with management

Encana (TSX:ECA)(NYSE:ECA) shares reached $27 in 2014. Today, the stock is down to just $6.70 apiece, which still results in a market cap of $9.4 billion.

Buying Encana today could be hugely lucrative — if you trust management's estimates of intrinsic value. Encouragingly, the company is putting its money where its mouth is.

"We see compelling value in Encana's stock today," said CEO Douglas Suttles. "In fact, we strongly believe that buying our own equity is an incredible value."

The net asset value of the stock could be as high as $15 per share. If natural gas prices get even a single year of relief, Encana shares would likely soar.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:NVA (NuVista Energy Ltd.)
2. TSX:PEY (Peyto Exploration & Development Corp)

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