Long-Term Investors: This Is the Cheapest Stock on the TSX

Description

Energy companies have had a tough time the last few years, especially ones in Western Canada.

There are a number of issues impacting operations over there, and although the companies have done a fantastic job of decreasing costs and remaining competitive at lower commodity prices, the inability of producers to be able to sell their products due to lack of takeaway capacity has hurt these companies far worse than anyone could have imagined.

Now, as a number of these once great stocks have been delisted from the **S&P/TSX Composite Index,** and their share prices continue to be impacted, is it finally the bottom — and time to make an investment?

One company that's extremely undervalued and should be looked at seriously by all investors is **Peyto Exploration and Development Corp** (TSX:PEY).

Peyto is one of the lowest cost natural gas producers in Canada and its management team is one of the best. Its stock has come down nearly 80% in the last year and nearly 95% since 2016.

Most investors would look at this and think the company has lost its touch, but that's just not the case.

What Peyto has done is significantly reduce its production, not because it's unable to produce the gas for any reason, but because it sees little point in producing a ton of gas and selling it at these rock bottom prices.

What it has done instead is severely reduce its capital expenditures and turn off some production, in order to defer income to better pricing environments.

This is a prudent move and protects the interest of long-term shareholders.

It's also been increasing its liquids production rate, with nearly 14% of production being liquids in the third quarter, up from 10.6% in the third quarter of 2018.

Its production was slightly down again in the quarter, with an average of 77,000 barrels of oil equivalent per day (BOEPD). This is down only slightly from the second quarter, when the company produced about 82,000 BOEPD.

The decrease in production, although prudent for long-term shareholders, has led to a rout in the stock in the short term. To get an idea of just how cheap Peyto is, we can look to some of the main valuation metrics.

Its price to earnings ratio is just 2.5 times on a trailing basis, and on a forward basis that goes to just seven times. The stock basically can't get any cheaper, and given its dividend is sustainable at these levels, the stock should warrant a buy.

It's also extremely cheap on a price to book basis, its P/B ratio currently sits at just 0.25 times.

In the last 12 months, the stock has had $0.88 in free cash flow per share against a current stock price of roughly $2.60. This gives Peyto a current free cash flow yield of more than 33%. This is incredible value, and it won't last long.

Its stock has been hammered so badly that its dividend, which has been trimmed a number of times, again yields more than 9%.

While a fix in the Western Canadian energy industry could still be a long way away, there is plenty of value available for investors looking at buying Peyto today, and with its more than 9% dividend and the unlikely chances that the company will cut production any further, it's a great stock to sit and hold until the issues in Western Canada can be sorted out.

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TICKERS GLOBAL

1. TSX:PEY (Peyto Exploration & Development Corp)

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