Contrarian Investors: Buy These 2 Energy Stocks for Massive Capital Gains

Description

Natural gas stocks remain in the doldrums. Beaten up by years of excess North American supply and a lack of pipelines, Canadian natural gas has not only lost its most important customer — the U.S. — but it's also been stranded.

For contrarian investors, this situation is one that can start to look appealing. Patience, fortitude, and conviction is needed, but placing a small amount of your total portfolio in natural gas stocks can give you exposure to real explosive upside.

Here are the two natural gas stocks worth considering if you're one of the contrarian investors out there.

Peyto Exploration and Development Corp.

A dividend yield of over 9% is a good place to start when talking about **Peyto Exploration and Development Corp.** (TSX:PEY). It is a dividend that has already been cut recently and a somewhat precarious situation given the natural gas environment.

But contrarian investors will be happy to see that debt levels are down, the company is generating operating cash flows, and the dividend is nicely covered by net income.

At Peyto, exposure to natural gas is high, at approximately 85%. As a result, it's no surprise that Peyto's stock price has been pummelled over the last three years, from $37 to well below $5.00. What is a surprise, however, is just how well Peyto has been able to weather the storm.

In 2018, Peyto still delivered cash flow from operations of more than $473 million, or $2.87 per share at writing. And while these cash flows are expected to decline as capital spending has been reigned in and production consequently falls, there is a light in this very dark cyclical low.

Peyto has grown to production of approximately 90,000 barrels of oil equivalent per day, and is mainly exposed to natural gas, with its large development of tight natural gas assets in Alberta's Deep Basin. The company has a history of strong capital efficiencies and remains one of the lowest cost intermediate producers today.

In response to the weak natural gas market, Peyto has shifted its drilling strategy toward liquid-rich production in the Cardium, which will improve realized prices and cash flows for Peyto.

Tourmaline Oil Corp.

Tourmaline Oil Corp. (TSX:TOU) is also pretty heavily weighted toward natural gas, at just below 80%. It too has been killed recently, with Tourmaline's stock price falling 64% in the last three years.

However, as far as company-specific factors go, Tourmaline has everything going for it. The stuff that Tourmaline can control, it is controlling — and controlling exceptionally well.

A strong and flexible balance sheet, which is ever so important especially in difficult times in order to ensure survival, is one of the company's strengths. Tourmaline has a $1.5 billion net debt balance which equates to one times debt to cash flow, and is 54% drawn on its credit line.

The company has a dividend yield of 4.5%, which is easily covered, with a payout ratio of approximately 23%.

Its large land position of 2.1 million acres in prolific areas such as the B.C. Montney region and the Deep Basin, gives the company a multitude of low-risk drilling opportunities. Future and low risk growth is available.

Tourmaline has significant insider ownership, with management and directors owning 21% of shares outstanding. As well, this management team is a very well-respected one with much success in the oil and gas industry.

Foolish bottom line

The natural gas industry may be the next big contrarian bet for massive returns. In this article, I have reviewed the two natural gas stocks that are the best of the best.

These stocks are generating relatively healthy results even in this depressed time; imagine what they can do if and when things begin to improve.

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TICKERS GLOBAL

1. TSX:PEY (Peyto Exploration & Development Corp)
2. TSX:TOU (Tourmaline Oil Corp.)

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Date
2025/08/23
Date Created
2019/10/18
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