



Why This Top TSX Energy Stock Just Got Upgraded, Again

Description

Unpredictability in the market is the name of the game these days. Even the energy sector, which has seen a big boost of late, is starting to feel some downside pressure. Accordingly, investors may be enticed to consider only the best top TSX energy stocks in this environment.

That makes sense.

And in this current environment, **Peyto Exploration** ([TSX:PEY](#)) is looking like a [good bet](#). Here's why this is a turnaround energy play with lots of upside for those bullish on energy right now.

Natural gas an important factor to consider

As a key natural gas player in the energy market, Peyto is unique among Canadian energy plays. Most of the company's peers focus on heavy oil — an entirely different segment altogether. Unlike Western Canadian Select, Canadian natural gas players are better able to leverage global pricing with their production. For investors in companies like Peyto, this is a good thing.

Indeed, natural gas is a prevalent fuel used both domestically and commercially. It offers lower carbon emission than dirtier fossil fuels such as coal, etc. With investors and consumers becoming more and more conscious of the carbon footprint of investing in energy names, natural gas players like Peyto seem like a better option.

Additionally, natural gas plays an important role in electricity production. Around 44% of America's electricity is generated from it. Various estimates for rising electricity usage put the burden on natural gas production increases. Production is expected to increase by 45% just to meet electricity demand over the next 20 years. Again, for investors in Peyto, this is a great thing.

Those bullish on natural gas have a reason to be. Indeed, right now, this commodity is cheap to produce and plentiful. However, over time, demand pressures and supply constraints could provide higher margins. Those betting on Peyto are betting on such a macro trend taking hold.

Bottom line

Until a cheaper, more effective fuel is found as a transitory tool to get us from fossil fuels to an electrified future, natural gas will remain the go-to energy source for some time. Accordingly, Peyto is an intriguing pick in the energy sector for those looking for an intermediate-term solution.

I'm of the belief that capital inflows into this segment of the energy market are only likely to continue in the coming years. Peyto has entered long-term contracts, stabilizing its pricing. As these contracts expire and prices rise, Peyto could see significant cash flow increases in Q4 2021 and beyond.

Accordingly, some analysts are projecting free cash flow growth of 25% for next year. Such a move would make Peyto extremely cheap at these levels.

This is a stock that investors interested in energy plays ought to consider right now. It may not be this cheap for long.

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