



1 Top TSX Natural Gas Stock With Unreal Growth Potential

Description

When it comes to choosing the right stock in this unpredictable market, one has to consider certain vital factors. These include operational performance, competitive advantage, and last but not least, the sector.

Indeed, the energy space is one that's been running red-hot of late. And given where energy prices are today, there's a lot to like about the valuation of many oil & gas players. Indeed, the natural gas sector is one that gets less attention compared to oil producers.

Accordingly, I think nat gas players such as **Peyto Exploration** ([TSX:PEY](#)) are [certainly worth looking at](#) right now.

Here's why.

Analysts are bullish on Peyto

Peyto's allure isn't lost on analysts right now. Indeed, many in the investment community are increasingly bullish on the outlook for nat gas players such as Peyto. As natural gas prices remain elevated, producers have significantly improved their financial positions and operating ratios.

Additionally, it appears more emphasis in the market is going toward mid-cap players right now such as Peyto with more potential upside.

Various analysts have recently upgraded their ratings for Peyto on this outlook. It appears Peyto stock continues to trade at a material discount to where commodity prices are right now. This makes sense if the collective market believes these prices are unsustainable.

However, for investors who believe the macroeconomic fundamentals of the energy space are here to stay, now could be a great time to pick up shares of a company like Peyto.

Indeed, Peyto's runway for growth seems to be longer than many think right now. And if natural gas

prices climb higher, analysts could be right on the money with their upgrades.

Commodity prices a key factor to take into account

As with any price-taker, Peyto's valuation is really a derivative of the outlook on underlying commodity prices. For those bullish on the rising need for natural gas as a transitional fuel toward a greener future, Peyto's positioning couldn't be better right now.

Additionally, Peyto has secured a number of long-term production contracts. These contracts stabilize the company's cash flow over time. Additionally, this strategic move removes some of the volatility with respect to commodities prices which may cause some investors some pause with such stocks right now.

The expectation for Peyto is that cash flows could increase by 25% next year. Such a push should inherently increase Peyto's per-share price. Indeed, analyst models for this stock show Peyto as being undervalued at these levels today. I have to agree.

I think the demand for natural gas both domestically and abroad is only going to increase. Massive projects to switch coal-run power plants to natural gas in the coming years and decades should provide a massive boost to producers. And Peyto remains one of the top options in Canada in this regard.

Bottom line

Natural gas is an increasingly important piece of the electricity puzzle in North America and worldwide. Around 44% of America's electricity is derived from natural gas at present. With a clean energy transition underway, this percentage could remain around these levels for some time.

As demand for electricity increases due to electrification, there are expectations that natural gas could in fact be under-supplied right now. I see Peyto as one of the best ways for investors to play this trend for the next couple of decades.

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TICKERS GLOBAL

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

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