



Peyto Exploration & Development Corp. (PEYUF)

Updated April 9th, 2025 by Nikolaos Sismanis

Key Metrics

Current Price:	\$10.75	5 Year Annual Expected Total Return:	9.3%	Market Cap:	\$2.14 B
Fair Value Price:	\$9.50	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/31/2025
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.4%	Dividend Payment Date:	04/15/2025
Dividend Yield:	8.7%	5 Year Price Target	\$12.12	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Sector:	Energy	Rating:	Sell

Overview & Current Events

Peyto Exploration & Development is a Canadian natural gas producer focused on the exploration and development of liquids-rich gas plays in Alberta's Deep Basin. The company is one of the lowest-cost natural gas producers in Canada and operates a vertically integrated model, handling drilling, completions, processing, and marketing in-house. Peyto's production is about 88% natural gas and 12% natural gas liquids, with a core emphasis on maximizing return on capital and maintaining low per-unit costs. As of year-end 2024, Peyto held over 8.2 trillion cubic feet equivalent in proved plus probable reserves. It also maintains long-term marketing and hedging contracts to smooth cash flows and enhance price realizations across multiple North American hubs. Peyto pays dividends monthly and has a market cap of \$2.14 billion. The company reports in financials in CAD. All figures in this report have been converted to USD unless otherwise noted.

On March 11th, 2025, Peyto posted its full-year results for the period ending December 31st, 2024. Revenue from natural gas and NGL sales including realized hedging gains rose by 12% to \$820.5 million, driven by a 19% increase in production volumes, which offset lower commodity prices. The growth was largely due to the full-year contribution from the Repsol acquisition and strong drilling results.

Net income fell by 4% to \$195.2 million, or \$0.99 per share. The fall was mainly due to higher operating costs, increased depletion from higher output, and higher interest expense tied to acquisition financing. For FY2025, we see EPS of \$0.95.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$0.63	\$0.51	\$0.85	\$0.57	\$0.62	(\$0.17)	\$0.70	\$1.65	\$1.22	\$0.99	\$0.95	\$1.21
DPS	\$0.95	\$0.98	\$1.05	\$0.53	\$0.18	\$0.07	\$0.10	\$0.44	\$1.00	\$0.92	\$0.93	\$0.93
Shares¹	157.5	162.6	164.9	164.9	164.9	164.9	170.1	175.0	180.3	197.1	197.1	200.0

Over the past decade, Peyto's earnings trend has closely tracked natural gas prices. Up until 2018, EPS ranged between \$0.51 and \$0.85, driven by steady production and low-cost operations, even in weak pricing environments. The company maintained profitability through strict cost control and strong operational execution. In 2018, earnings dipped as gas prices fell and Peyto curtailed capital spending, prioritizing balance sheet preservation.

EPS rebounded to \$0.62 in 2019 before falling into a loss in 2020 due to the COVID-19 pandemic and record-low natural gas prices. Despite stable volumes, a decline in realizations and impairments pushed earnings negative. The next bounce began in 2021 with a return to positive bottom line followed by a breakout year in 2022 where EPS surged to \$1.65, supported by strong gas prices, expanding margins, and disciplined capital allocation.

In 2023, earnings moderated to \$1.22, and further to \$0.99 in 2024, as realized prices softened and cost inflation eroded margins. The Repsol asset acquisition helped boost volumes, but higher depletion and financing costs weighed on the bottom line. Still, Peyto remained profitable and free cash flow generative.

Moving forward, we believe EPS can grow at a CAGR of 5% through 2030, driven by stable production growth, improved price realizations from diversified market access and hedging, synergies from the Repsol acquisition, and a structurally

¹ Share count is in millions.

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tighter North American natural gas market supported by LNG demand growth and declining U.S. drilling activity. We don't forecast any dividend growth ahead, as current levels of payouts are barely covered.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	41.9	46.7	24.5	18.2	7.8	---	6.4	5.4	7.6	10.5	11.3	10.0
Avg. Yld.	3.6%	4.1%	5.0%	5.1%	3.7%	3.3%	2.2%	5.0%	10.7%	8.9%	8.7%	7.7%

Peyto's valuation has normalized from inflated historical levels, with recent P/E multiples settling in the 5–10x range. Earlier high multiples reflected depressed earnings rather than investor optimism. Today, despite better fundamentals, healthy cash flow, and a structurally tighter gas market, Peyto remains conservatively valued due to lingering concerns around commodity volatility and sector sentiment. We have set our fair multiple at 10x earnings, which we believe fits the stock's investment case. The current dividend yield is substantial, though it does reflect the high-risk and speculative nature of Peyto's business model.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	151%	192%	124%	93%	29%	---	14%	27%	82%	93%	98%	77%

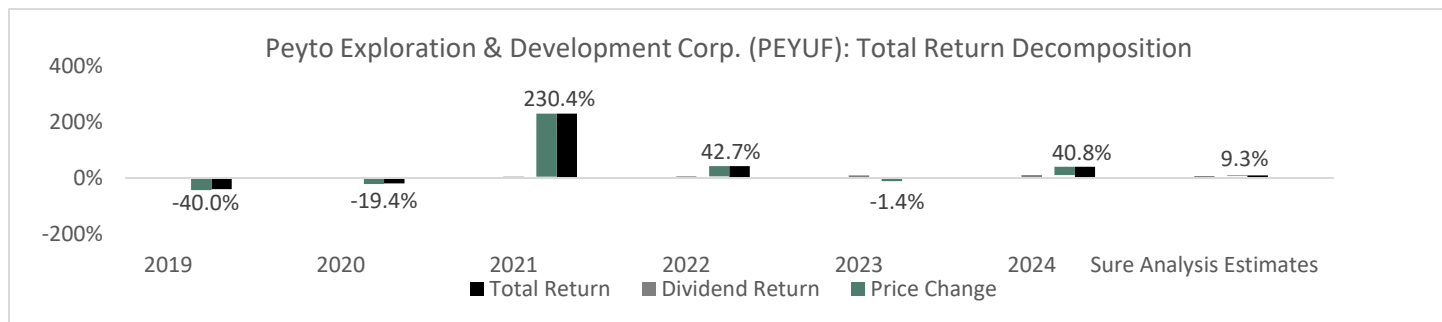
Peyto benefits from full control over its operations, including drilling, processing, and marketing, which enables industry-leading cost efficiency and dependability. Its vertically integrated model, paired with a long reserve life and deep drilling inventory in the Deep Basin, supports consistent returns and self-funded growth without equity dilution. The company has built a reputation for disciplined capital management and lean operations that outperform across cycles.

While natural gas pricing remains inherently volatile, Peyto is better positioned than many peers to weather downturns. Its low cost base, strong hedge program, and infrastructure ownership help protect margins when prices soften. During COVID-19, gas demand for heating and power remained stable, allowing Peyto's cash flows to hold up. However, like most gas-weighted producers, the business remains exposed to broader macro shocks, as seen during the financial crisis when prices and earnings fell sharply. Still, its structural advantages offer relative resilience within a cyclical industry. In any case, we recommend that you don't trust the dividend blindly. Peyto has slashed it more than once during tough industry conditions to protect the balance sheet.

Final Thoughts & Recommendation

Peyto offers low-cost, pure-play exposure to Western Canadian natural gas with full operational control and disciplined capital allocation. Its upside is tied to improving market access and long-term LNG-driven demand growth. We forecast annualized returns of 9.3% through 2030, to be primarily driven by the starting yield and our modest growth estimate, partially offset by the possibility of a valuation headwind ahead. Nevertheless, we rate Peyto a sell due to the lack of dividend growth in recent times.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	477	423	542	387	354	299	727	1,254	748	663
Gross Profit	201	152	273	143	155	93	459	826	441	307
Gross Margin	42.1%	35.9%	50.3%	37.0%	43.8%	31.1%	63.1%	65.8%	58.9%	46.4%
SG&A Exp.	(0)	13	5	1	11	10	16	17	22	32
Operating Profit	134	70	190	66	72	14	352	690	286	103
Operating Margin	28.1%	16.6%	35.0%	17.0%	20.3%	4.6%	48.4%	55.0%	38.2%	15.6%
Net Profit	108	85	136	100	101	(27)	121	300	217	205
Net Margin	22.6%	20.1%	25.1%	25.7%	28.4%	-8.9%	16.7%	23.9%	29.0%	30.9%
Free Cash Flow	(50)	30	11	196	83	(24)	74	240	173	157
Income Tax	68	32	50	37	(48)	(7)	31	97	68	62

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,419	2,569	3,057	2,708	2,754	2,824	2,968	2,956	4,153	3,836
Cash & Equivalents	-	2	4	-	5	7	4	9	28	10
Accounts Receivable	62	70	72	44	47	44	93	139	122	103
Total Liabilities	1,250	1,426	1,687	1,475	1,442	1,509	1,583	1,437	2,107	1,958
Accounts Payable	104	117	106	84	79	68	133	159	129	112
Long-Term Debt	753	794	1,022	858	857	918	836	633	1,054	943
Shareholder's Equity	1,170	1,143	1,370	1,234	1,312	1,315	1,385	1,519	2,047	1,879
LTD/E Ratio	0.64	0.69	0.75	0.70	0.65	0.70	0.60	0.42	0.52	0.50

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	4.2%	3.4%	4.8%	3.5%	3.7%	-1.0%	4.2%	10.1%	6.1%	5.1%
Return on Equity	8.6%	7.3%	10.8%	7.7%	7.9%	-2.0%	9.0%	20.7%	12.2%	10.4%
ROIC	5.3%	4.4%	6.3%	4.4%	4.7%	-1.2%	5.5%	13.7%	8.3%	6.9%
Shares Out.	157.5	162.6	164.9	164.9	164.9	164.9	170.1	175.0	180.3	197.1
Revenue/Share	3.03	2.60	3.29	2.35	2.15	1.81	4.28	7.17	4.15	3.36
FCF/Share	(0.32)	0.18	0.07	1.19	0.51	(0.15)	0.44	1.37	0.96	0.80

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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