Peyto Exploration & Development Corp. (PEYUF)

Updated August 26th, 2026, by Nikolaos Sismanis

Key Metrics

Current Price:	$17.82	**5 Year Annual Expected Total Return:**	11.5%	**Market Cap:**	$3.7 B
Fair Value Price:	$20.00	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	08/31/2026
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.3%	**Dividend Payment Date:**	09/15/2026
Dividend Yield:	5.8%	**5 Year Price Target**	$26	**Years Of Dividend Growth:**	1
Dividend Risk Score:	F	**Sector:**	Energy	**Rating:**	Hold

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 last quarter, Peyto held over 8.7 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 $3.7 billion. The company reports in financials in CAD. All figures in this report have been converted to USD unless otherwise noted.

On May 12th, 2026, Peyto raised its dividend by 9% to a monthly rate of C$0.12 ($1.05 annualized in USD).

On August 11th, 2026, Peyto reported its Q2 results for the period ending June 30th, 2026. Natural gas and NGL sales, including realized hedging gains, rose 13% to $251.3 million from $221.8 million last year. Net income increased 21% to $76.8 million, or $0.37 per diluted share, driven by a 10% growth in production to 145,320 boe/d and a 3% improvement in the net sales price. Cash costs before royalties declined 11% to $0.75/Mcfe, helping Peyto generate a 71% operating margin. Diversification and hedging lifted the realized natural gas price to $2.47/Mcf, 108% above AECO. Peyto also signed a 10-year agreement to supply Centrica with 50,000 MMBtu/d beginning in 2029 at prices linked to the European TTF benchmark. For FY2026, we believe Peyto will achieve EPS of $3.48. However, we believe the company has an earnings power of $2.00 per share under "normal conditions", which we have embedded in our estimates.

Growth on a Per-Share Basis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
EPS	$0.51	$0.85	$0.57	$0.62	($0.17)	$0.70	$1.65	$1.22	$0.99	$1.50	***$3.48***	***$2.55***
DPS	$0.98	$1.05	$0.53	$0.18	$0.07	$0.10	$0.44	$1.00	$0.92	$0.96	***$1.04***	***$1.04***
Shares[1]	162.6	164.9	164.9	164.9	164.9	170.1	175.0	180.3	197.1	203.1	***208.6***	***230.0***

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

[1] Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

bottom line. Still, Peyto remained profitable and free cash flow generative. By 2025, earnings rebounded to $1.50 as record production of 134,055 boe/d and strong hedging, capturing gas prices nearly double AECO, drove record profits.

Moving forward, we believe EPS can grow at a CAGR of 5% through 2031, driven by stable production growth, improved price realizations from diversified market access and hedging, synergies from the Repsol acquisition, and a structurally tighter North American natural gas market supported by LNG demand growth and declining U.S. drilling activity. We don't see any dividend growth ahead, as current levels of payouts are barely covered, despite the recent dividend hike.

Valuation Analysis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Now	2031
Avg. P/E	46.7	24.5	18.2	7.8	---	6.4	5.4	7.6	10.5	9.0	***8.9***	***10.0***
Avg. Yld.	4.1%	5.0%	5.1%	3.7%	3.3%	2.2%	5.0%	10.7%	8.9%	7.1%	***5.8%***	***4.1%***

Peyto's valuation has normalized from inflated historical levels, with recent P/E multiples settling in the 5x–10x range. Earlier high multiples reflected depressed earnings rather than investor optimism. Today, Peyto seems undervalued relative to our earnings power estimate. We have set our fair multiple at 10x earnings, which we believe fits the stock's investment case. The current dividend yield is substantial and in line with its decade average yield of 5.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
Payout	192%	124%	93%	29%	---	14%	27%	82%	93%	64%	***52%***	***41%***

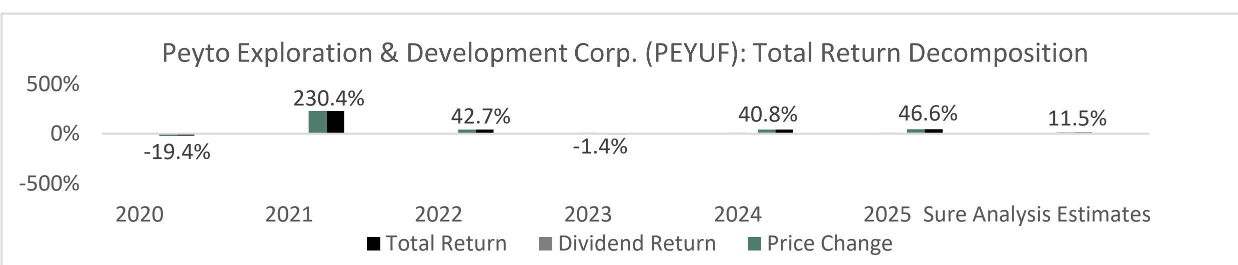
Peyto benefits from full control over its operations, including drilling, processing, and marketing, which enables industry-leading cost efficiency and dependability. Its vertically integrated model, paired with a long reserve life and deep drilling inventory in the Deep Basin, supports consistent returns 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 11.5% through 2031, to be primarily driven by the starting yield, our modest growth estimate, and a soft valuation tailwind. We rate Peyto as a hold due to a weak dividend risk score.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	423	542	387	354	299	727	1,254	748	663	756
Gross Profit	152	273	143	155	93	459	826	441	307	283
Gross Margin	35.9%	50.3%	37.0%	43.8%	31.1%	63.1%	65.8%	58.9%	46.4%	37.4%
SG&A Exp.	13	5	1	11	10	16	17	22	32	12
Operating Profit	70	190	66	72	14	352	690	286	103	247
Operating Margin	16.6%	35.0%	17.0%	20.3%	4.6%	48.4%	55.0%	38.2%	15.6%	32.7%
Net Profit	85	136	100	101	(27)	121	300	217	205	300
Net Margin	20.1%	25.1%	25.7%	28.4%	-8.9%	16.7%	23.9%	29.0%	30.9%	39.7%
Free Cash Flow	30	11	196	83	(24)	74	240	173	157	275
Income Tax	32	50	37	(48)	(7)	31	97	68	62	84

Balance Sheet Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Assets	2,569	3,057	2,708	2,754	2,824	2,968	2,956	4,153	3,836	3,983
Cash & Equivalents	2	4	-	5	7	4	9	28	10	37
Accounts Receivable	70	72	44	47	44	93	139	122	103	105
Total Liabilities	1,426	1,687	1,475	1,442	1,509	1,583	1,437	2,107	1,958	1,902
Accounts Payable	117	106	84	79	68	133	159	129	112	141
Long-Term Debt	794	1,022	858	857	918	836	633	1,054	943	862
Shareholder’s Equity	1,143	1,370	1,234	1,312	1,315	1,385	1,519	2,047	1,879	2,080
LTD/E Ratio	0.69	0.75	0.70	0.65	0.70	0.60	0.42	0.52	0.50	0.41

Profitability & Per Share Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Return on Assets	3.4%	4.8%	3.5%	3.7%	-1.0%	4.2%	10.1%	6.1%	5.1%	7.7%
Return on Equity	7.3%	10.8%	7.7%	7.9%	-2.0%	9.0%	20.7%	12.2%	10.4%	15.2%
ROIC	4.4%	6.3%	4.4%	4.7%	-1.2%	5.5%	13.7%	8.3%	6.9%	10.4%
Shares Out.	162.6	164.9	164.9	164.9	164.9	170.1	175.0	180.3	197.1	203.1
Revenue/Share	2.60	3.29	2.35	2.15	1.81	4.28	7.17	4.15	3.36	3.72
FCF/Share	0.18	0.07	1.19	0.51	(0.15)	0.44	1.37	0.96	0.80	1.35

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