Must-Own Stocks as Natural Gas Becomes the Fuel of Choice

Description

Globally, the shift away from oil and toward natural gas in the transportation industry is under way, whether it be in the form of Compressed Natural Gas (CNG) or Liquified Natural Gas (LNG). The question for investors is “how can we make money from this shift”?

There are a few options. First, we have the companies that are supplying the technology and the infrastructure. Second, we have the natural gas producers who are supplying the fuel. And third, we have the energy services companies who take care of the drilling and completion of the wells in order to get the hydrocarbon out of the ground.

Technology and Infrastructure

Westport Innovations (TSX:WPT, NASDAQ:WPRT) is a leader in alternative fuel, low-emissions transportation technologies, and they engineer natural gas engines and vehicles. While they are in the right business to take advantage of this shift, the stock doesn’t meet my criteria as an investor at this time. In the latest quarter, the company reported a net loss of $33.9 million or $0.61 per share. Cash as at the end of the quarter was $135.3 million, which means that at this rate of losses, the company will run out of money in 15 months. As a prudent investor, I would rather wait until the company demonstrates that it can successfully make money from their seemingly great technology. This may result in missing out on some of the potential upside, but I’m alright with this as the trade-off is a less risky scenario.

Clean Energy Fuels Corp. (NASDAQ: CLNE) is the largest provider of natural gas fuel for transportation in North America. The company builds and operates CNG and LNG fueling stations, and manufactures CNG and LNG equipment.

Last week, a wholly-owned subsidiary of Clean Energy Fuels Corp. announced that it secured a contract with China Gas Holdings to supply up to 416 natural gas compressors and related technologies for the construction of up to 310 public-access, compressed natural gas (CNG) stations in China. The three year agreement has a potential value of approximately US $167 million.

In fact, Clean Energy has a growing list of natural gas fuel customers in the transit, trucking, and manufacturing industries, as the “natural gas highway” moves a little closer to reality.

Like Westport, we’re dealing with another company with great promise, but it too is still losing money. In the latest quarter, the company reported a net loss of $6.2 million or $0.07 per share. EBITDA, on the other hand, was $11 million versus a loss last year, so things are looking up.

Natural Gas Producers

Encana (TSX: ECA) is one of North America’s largest natural gas producers and is well positioned to be a major supplier for years to come. Until some of these futuristic sources of demand evolve a bit more, the company has been reporting improved results as they shift focus onto natural gas liquids, which have been more profitable in the current environment. Encana has decades worth of natural gas inventory, has a healthy balance sheet, and sports a dividend yield of 4.4%.

Energy Services

Calfrac (TSX: CFW) is the best positioned of the Canadian energy services companies to benefit from the growth in the LNG/CNG markets. Healthy activity levels among LNG participants is expected in emerging resource plays in BC and Northwest Alberta, and Calfrac is a big player in these areas. Support for development of the LNG projects is strong, and this is a major growth area for the drillers.

Precision Drilling (TSX: PD) and **Trican** (TSX: TCW) will also benefit from the shift to natural gas as a transportation fuel, as these companies are also involved in key LNG areas. In the latest quarter, Precision Drilling announced an increase in the 2013 capital budget by $121mln to $654mln. This adjustment was made in order to add 5 new super series rigs to their building plans, in response to early customer activity related to the LNG build out. Precision Drilling is seeing interest from participants in future LNG projects who are looking for specifically designed rigs.

Bottom Line

There are a few ways for investors to position their portfolios to profit from this shift to LNG and CNG. As investors, we like to minimize risk while maximizing return. Companies that have not been able to make money yet, no matter how appealing their technology is, can be a bad investment. Personally, I’m more in favour of the companies that have a proven business model, are generating returns, and are not relying solely on the development of a new market to make money. Encana and the oil services companies fall into this category.

Another energetic idea…

While the future of natural gas looks bright, your portfolio may be better served by alternative source of energy. Instead of natural gas, your portfolio could be best served by uranium – the key ingredient for nuclear power. Not only is uranium in demand in places like China, but its price isn’t quite as headline driven, which could make it a more valuable commodity to secure your portfolio.

If you're curious to learn more about uranium's power, The Motley Fool has prepared a Special **FREE** Report that will clue you into the two best uranium companies in Canada. It's called "Fuel Your Portfolio With This Energetic Commodity," and you can receive a copy at no charge by simply **clicking here now!**

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Fool contributor Karen Thomas owns shares of Encana. The Motley Fool owns shares of Westport Innovations.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CFW (Calfrac Well Services Ltd.)
2. TSX:PD (Precision Drilling Corporation)
3. TSX:TCW (Trican Well Service Ltd.)

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