Canada’s Natural Gas Glut Continues To Plague Producers

Description

America’s natural gas boom is causing problems in Canada. With its top natural gas customer no longer needing its product, Canada is looking to export its excess natural gas overseas. Some companies just don’t want to wait around for the day that Canadian gas prices head higher.

Sale called off
That’s why producers like **Canadian Natural Resources** (TSX: CNQ) (NYSE: CNQ) are looking to sell natural gas properties. The problem it found is that no one was willing to give it much value in exchange for the assets. So the company recently called off the sale of the natural gas properties in the Montney region.

While Canadian Natural Resources did find a number of companies express interest in its asset, none made an offer it found acceptable. Instead, the company will retain the acreage. It’s possible it could put the assets on the block again later, or it could develop them when gas prices improve.

Canadian Natural Resources estimated that its more than one million net acres in the Montney contained about 6.7 trillion cubic feet of natural gas. That’s a vast supply of gas. To put it into perspective, 5 trillion cubic feet of natural gas is enough to supply the needs of five million households for 15 years. Clearly that’s a valuable commodity to have, even at today’s low price.

Projecting a problem
The problem that Canadian Natural Resources ran into is that it’s not the only producer trying to cash out on some of its natural gas holdings. Last year, **Talisman Energy** (TSX: TLM) (NYSE: TLM) unloaded 75% of its position in the Montney for $1.5 billion. The assets were sold to Progress Energy, which is the Canadian arm of Malaysia’s **Petronas**.

There are a range of other Western Canadian natural gas assets also either on the market or will be hitting the market over the next year. For example, **Penn West Exploration (**TSX: PWT) (NYSE: PWE) will be marketing its Cordova gas asset as part of the second phase of its disposition process to refocus its portfolio. That’s in addition to its more liquids focused Duvernay assets that will also be divested as part of phase two. The low price of natural gas, along with a glut of assets on the market, could cause Penn West to take a price less than ideal for these assets. That's an outcome that Canadian Natural Resources avoided by holding on to its Montney gas assets.

Investor takeaway

This isn't the ideal time to be unloading natural gas assets. Buyers, on the other hand, could be getting quite a deal if gas prices move higher once Canada starts exporting gas. In the end, Canadian Natural Resources could come out a winner by not bowing into pressure to sell its gas assets into a buyers' market.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

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