Nuvista Is Up Almost 50% Since January: Is There More to Come?

Description

Nuvista (TSX: NVA) has been a clear winner this year. Let's look at the reasons behind this stellar performance to help us determine whether there is more to come.

Focus on natural gas and natural gas liquids

Natural gas prices have been on a tear in the last year, and have performed far better than many analysts expected. Prices have risen almost 15% since last year and could be headed further based on the most recent inventory reports, which are showing big decreases in supply.

Last week, the U.S. Energy Information Administration reported that natural gas inventories were 822 billion cubic feet (bcf), a full 51% below last year's inventory level and almost 55% below the five-year average. Nuvista's focus on natural gas (70% of production is natural gas) is working for the company at this time.

Natural gas liquids pricing has performed exceptionally well in the last year, and many companies, including Nuvista, are focusing more on liquids-rich natural gas production in order to benefit from this strength in pricing. Similarly, **Encana** (TSX: ECA)(NYSE: ECA) has been diversifying its production profile by continuing to grow its natural gas liquids production. In fact, Encana anticipates that by 2017, 75% of its cash flow will be generated from liquids production.

Increasing production

Following better than expected performance in the third quarter, management increased its production forecast for 2013, to 17,000 Boe/d to 17,400 Boe/d. This was slightly above the previous forecast of between 16,250 Boe/d and 17,000 Boe/d. 2013 production ended up coming in at the upper end of the company's forecast, 17,329 Boe/d. Including divestitures, production declined year over year, however, for 2014 the company is confident that it will achieve production per share growth of 15%.

Nuvista has plans for 2014 to expand the infrastructure to ensure that its production can access the market. The second and fourth quarter of 2014 will see significant expansions, as raw gas processing will increase 35 Mmcf/d and 30 MMcf/d respectively. That compares to current production of 73.9

Mmcf/d, so we can see that Nuvista is ramping up for big production increases.

Cash from operations up strong

Funds from operations in the fourth quarter increased a healthy 32% due to higher pricing, increased production, as well as higher netbacks (revenue per barrel less costs associated with it). Netbacks for 2013 were $12.99/Boe versus $11.91 in 2012, representing a 9% increase.

Netbacks associated with the Montney play, which is Nuvista's focus, are extremely attractive. They are currently in the high $20s, but as production from the Montney increases, so will economies of scale and netbacks are expected to hit as high as $37.

Reserves rising

Proved plus probable reserves increased 48% in 2013, extending the company's Reserve Life Index (RLI) to 22.2 years from 14.6 previously. Drilling will continue in 2014 in the Lower Montney Zone and based on this, investors should be anticipating a further increase in the area's resource estimate in 2014.

Focus on the liquids-rich Montney in Alberta

As I touched on in the previous section, Nuvista is focusing on the Monteny in Alberta due to its superior economics and for its condensate-rich natural gas. This is in response to the strength in natural gas liquids pricing. This play is considered a low risk, repeatable play and the economics of the Montney are very lucrative. Nuvista has seen average IRRs (Internal Rate of Return) from this area of over 50%.

Strong balance sheet

Nuvista exited 2013 with no debt. Furthermore, management expects that due to its equity issue in 2013, its planned divestitures, and its expected cash flow from operations, its capital program will be funded through at least 2015.

Foolish bottom line

The CEO of Nuvista, Jonathon Wright, said it well: "We are planners in a low gas environment and believers in a high gas environment." Nuvista is in a very attractive spot right now, experiencing accelerating netbacks along with low risk, repeatable increases in production. The company's balance sheet is healthy, production and cash flow is growing at very strong rates, and with natural gas and natural gas liquids pricing on the rise, the future looks bright. In short, yes, there is more to come.

CATEGORY

1. Investing

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1. TSX:NVA (NuVista Energy Ltd.)

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