Baby it’s Cold Outside … Is Natural Gas About to Soar Higher?

Description

Natural gas is up 5% at the time of writing. As we know, demand for natural gas increases as the weather gets colder in the winter, as consumers set their thermostats higher in an effort to stay warm and snug.

So, with today’s winter blast, it is not surprising that we are seeing an increase in natural gas prices. But is this a short-term blip, or are we in for sustainably higher natural gas prices?

Well, one very important data point is the storage numbers. The less storage, the better.

And the latest storage numbers out of the Energy Information Administration (EIA) were once again bullish, as we saw a larger than average storage withdrawal that was better than expected.

With the latest withdrawal from storage of 182 billion cubic feet (bcf) bringing the gas in underground storage to 3,444 bcf, a full 2.4% lower than the five-year average, we have a key metric that has historically been a very bullish indicator, telling us that things are about to get better.

And I know that all the talk is about record supply coming out of the U.S., but what if demand is greater than we think going forward, and what if supply doesn’t increase as much as expected?

Decline rates, or the natural decrease in a well’s production, are steep in the famous and prolific Marcellus shale reservoir, which means that we are going to need higher prices to encourage more investment in the drilling of these wells, which are seeing diminishing returns.

And low and behold, we then have a bullish case for natural gas.

That’s great, because I know of a few high-quality companies that are making good money, even at these dismally low natural gas prices.

Peyto Exploration and Development Corp. (TSX:PEY) is a $2.3 billion market capitalization oil and gas company with over 90% of its production from natural gas, most of it coming from the Deep Basin of Alberta.

Third-quarter results showed a 93% increase in EPS, a 9% increase in funds from operations per share, and free cash flow of $25 million in the first nine months of the year.

With Peyto, we get the lowest-cost intermediate natural gas producer and an 8.7% dividend yield.

Tourmaline Oil Corp. (TSX:TOU), with 85% of its production coming from natural gas, also has a very rapidly growing production profile, with production per share increasing at a cumulative average growth rate of 33% from 2010 to 2016.

And during this time, operating costs have been reduced dramatically from over $6 to just over $3.

With a 78% natural gas weighting, **Birchcliff Energy Ltd.** (TSX:BIR) is also expecting strong production growth of almost 40% this year. And with its flexible balance sheet that has a reasonable level of debt (25% debt-to-total-capitalization ratio), the company is able to continue growing its production well into the future.

The message here is that with these stocks, we can wait patiently for the tide to turn on natural gas prices, and when it does, this patience will be greatly rewarded.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:BIR (Birchcliff Energy Ltd.)
2. TSX:PEY (Peyto Exploration & Development Corp)
3. TSX:TOU (Tourmaline Oil Corp.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/26

Date Created
2017/12/22
Author
karenjennifer