



## Cash in on Unique Local Market Dynamics With This Canadian Energy Stock

### Description

While crude has rallied sharply since the start of 2018, natural gas failed to keep pace. The North American benchmark West Texas Intermediate (WTI) has [risen by roughly](#) 4% since the start of 2018, yet natural gas remains mired in a deep slump, having fallen by around 7% over that period. The ongoing slump has impacted many North American energy companies focused on natural gas production, including **Peyto Exploration and Development Corp.** ([TSX:PEY](#)), **Painted Pony Petroleum Ltd.** ([TSX:PPY](#)) and **Encana Corp.** ([TSX:ECA](#))([NYSE:ECA](#)), which have seen their stock drop by 26%, 12%, and 17% respectively. One energy company focused on natural gas production that's proven far more resistant to price fluctuations and offers considerable upside is **Canacol Energy Ltd.** ([TSX:CNE](#)).

### Now what?

Canacol's stock has only dropped by 8% since the start of 2018, as its earnings are shielded from weaker natural gas prices by the unique characteristics of Colombia's natural gas market, the focus of its operations.

Since 2009, Canacol has amassed a portfolio of high quality oil and gas assets located primarily in Colombia. The assets comprise 1.1 million net acres, giving it oil reserves of 103 million barrels, of which 86% are weighted to natural gas. That translates into a massive natural gas reserves totalling 505 billion cubic feet. Those reserves have been independently valued after tax and after applying a 10% discount rate to be worth \$8.00 per share, almost double its current share price.

This indicates just how attractively valued Canacol is currently.

The driller is focused on boosting its natural gas production and reserves to become a major supplier in Colombia's natural gas market. It isn't hard to understand why.

Colombia is experiencing a shortage of natural gas caused by acute declines in reserves and production, which forced it to receive sustained imports of bulk liquid propane gas. These imports are expected to supply up to 80% of the domestic liquid propane market. Demand for natural gas continues to grow, particularly because of the recovery in crude, which has helped to buoy economic

growth, sparking greater demand for energy.

Canacol is uniquely positioned to take advantage of declining domestic supplies and growing demand.

It has been able to expand its gas production in the Andean nation at an impressive clip. For 2017, natural gas output was 15% higher than a year earlier, while 2018 gas production is projected to expand by at least 34% year over year.

Because of Colombia's constrained market, Canacol has been able to lock in a price that is significantly higher for the gas that it provides than the market price. The company expects to earn an average price of US\$4.75 for every million British thermal units sold (mmbtu), which is almost 80% higher than the North American Henry Hub stop price at the time of writing.

Being able to secure prices at those levels coupled with rising production virtually guarantees Canacol's profitability.

Strong natural gas production growth will continue because Canacol has allocated US\$80 million to its operations during 2018, 97% of which will be invested in its gas operations. Canacol also possesses an enviable drilling success rate, having discovered natural gas for 83% of the wells drilled as part of its exploration program. And that, along with most of its capital expenditure allocated to its gas assets, will ensure that production and reserves continue growing at a solid rate.

### So what?

Canacol offers a unique opportunity for investors to gain exposure to Colombia's burgeoning natural gas industry and the unique opportunities presented by its domestic market, which is dominated by supply constraints. The [recent rally](#) in crude will further boost Canacol's bottom line because oil makes up 19% of its production. As its bottom line improves and earnings grow it isn't difficult to see Canacol's stock doubling in value.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:CNE (Canacol Energy Ltd)
2. TSX:PEY (Peyto Exploration & Development Corp)

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