



1 Top Natural Gas Stock for Investors to Consider

Description

Despite the outlook for natural gas [turning bullish](#) in recent weeks, the fuel continues to languish, having fallen by a startling 22% since the start of 2018 to be trading at ~US\$2.88 per million British thermal units (mmBtu). This is despite falling inventories and rising demand because of its growing acceptance as the transitional fuel of choice for electricity generation. That has hit North American natural gas producers hard, such as **Encana Corp.** as well as **Peyto Exploration & Development Corp.**, with their shares plunging by 4% and 23%, respectively.

Nevertheless, despite the fuel's weakness, there is one Canadian natural gas producer that is uniquely positioned to profit regardless of weaker prices. This company is **Canacol Energy Ltd.** ([TSX:CNE](#)), which is focused on operating in the South American nation of Colombia.

Now what?

Colombia, which was once renowned for its bountiful natural gas reserves that allowed it to be self-sufficient, is facing an acute shortage of the fuel. Natural gas production in the Andean nation has declined so significantly in recent years that it has been forced to start making sustained imports of liquid natural gas (LPG) through the Caribbean port of Cartagena.

It has been claimed by local market sources that Colombia is experiencing a shortage of ~250,000 mmBtu monthly, and that shortfall can only grow as demand for natural gas in Colombia continues to grow — even more so when there have been no major natural gas discoveries in the Andean nation for about 25 years and the likelihood of any significant discoveries being made in the foreseeable future is slim.

This has created a significant opportunity for Canacol, which, in recent years, has switched its focus from oil to natural gas in Colombia, amassing an extensive portfolio of exploration and producing properties. The company ended 2017 with considerable gas reserves of 505 billion cubic feet (BCF) compared to 410 BCF a year earlier.

Canacol has also been able to steadily grow its natural gas production. For 2017 production shot up by 15% year over year, and that growth will continue into 2018 and beyond, as Canacol boosts its gas

output as well as reserves.

The driller has embarked on an accelerated drilling program funded by a US\$80 million capital budget for 2018, where US\$33 million has been allocated to exploration drilling and well development. This sees Canacol planning to drill seven wells over the course of the year, which, when combined with the quality of its acreage and high drilling success rate, means that further discoveries are almost inevitable.

What makes Canacol's position so attractive is that because of the acute shortage of natural gas in Colombia, the company expects to receive US\$4.75 per mmBtu, which is roughly 40% higher than the market price. That gives it a distinct advantage over its peers operating in North America and means it is less reliant on marked upturn in demand for natural gas occurring in order to drive earnings higher.

Because of growing demand within Colombia for natural gas coupled with the existing supply deficit, which even the LPG imports are failing to fill at this time, those higher domestic prices will remain in place for the foreseeable future.

Furthermore, it creates plenty of room for Canacol to expand its operations, which will give its bottom line a healthy boost.

Let's not forget that it will also benefit from the sharp surge in oil in recent weeks, because ~20% of its hydrocarbon production is made up of oil. Canacol, because it is operating in Colombia, is able to access international Brent pricing, giving it a further financial advantage over its peers operating in North America.

So what?

Canacol remains one of the [top picks](#) for playing higher oil and natural gas prices, specifically because it is capable of capitalizing on supply constraints in Colombia's domestic market, while also benefiting from higher crude. That makes it an appealing play for investors seeking exposure to natural gas.

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