3 Energy Stocks Soaring With Improving Natural Gas Fundamentals

Description

The long-term and short-term outlook for natural gas is finally strengthening, sending natural gas energy stocks soaring after years of being left in the dust.

In the short term, we have natural gas inventories, which remain below five-year averages and has traditionally been a buy signal despite talks of too much supply and relentlessly rising production.

Longer term, the natural gas market is opening up with the approval of LNG Canada's project.

This approval will ultimately open up the demand side of the equation and eliminate the discount that aeco (Canadian natural gas price) has been trading at relative to nymex (New York exchange natural gas price) and natural gas prices worldwide, which are much higher.

Shell is anticipating a 2% demand growth in LNG, much higher than other fuels, as the world is embarking on its goal of reducing its carbon imprint and natural gas takes its place as a "cleaner" fuel of choice that represents progress on this front.

With this, we can anticipate continued strengthening in natural gas pricing and improving sentiment.

Here I will look at three energy stocks that are very heavily weighted to natural gas and that are showing real value these days.

Peyto Exploration and Development Corp. (TSX:PEY)

With 89% of its production being natural gas, Peyto is very well positioned to reap the rewards of strengthening natural gas prices.

Peyto just posted its 18th year of consecutive year of profits, with a 55% increase in EPS and a 12% increase in funds from operations.

Peyto stock is down 60% in the last five years, but recently, it has seen strength as these developments have taken place.

The stock is up almost 20% from its September lows, and with a dividend yield of 5.9%, shareholders have been getting paid to wait.

Cash flow from operations increased 10% in 2017 and declined 4% in the first six months of 2018, and funds from operations in the first six months of 2018 covered both capital expenditures and dividend payments by $155 million, as management has adjusted capital spending in this low price environment.

Returns continue to be industry-leading, as cash costs remain top tier and the company's realized price of $3.20 per million cubic feet of natural gas was 184% higher than the AECO daily price average.

Tourmaline Oil Corp. (TSX:TOU)

With an 82% natural gas weighting, Tourmaline stock also stands to benefit big-time amid a rising natural gas price environment.

With a strong and flexible balance sheet, a large land position and management/director ownership of 21% of the shares, Tourmaline stock has massive upside to rising natural gas prices.

Arc Resources Ltd. (TSX:ARX)

Arc has a 71% gas weighting and has been a very strong performer, beating expectations on both the production and cash flow fronts.

The company has a reserve life index of over 10 years (on a proven basis) and has high-quality assets in the prolific Montney area, with a 15-year drilling inventory.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:ARX (ARC Resources Ltd.)
2. TSX:PEY (Peyto Exploration & Development Corp)
3. TSX:TOU (Tourmaline Oil Corp.)

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Author
karenjennifer