# Has the Natural Gas Boom Truly Arrived?

## Description

There is a growing chorus of voices from analysts and industry insiders claiming that the slump in natural gas has come to an end and a new boom is emerging. They anticipate that significant growth in demand will buoy prices over coming months, which will be a boon for natural gas producers such as **Arc Resources Ltd.** (TSX:ARX).



Already natural gas has shot up by a stunning 51% for the year to date, yet Arc, which is down by 33% and many other Canadian natural gas producers have failed to rally. According to some market pundits, this, along with the apparent favourable long-term outlook for natural gas has created an opportunity for investors. However, there are indications that the latest price spike is seasonal and may not be as beneficial over the long term for Canadian natural gas producers.

**Now what?**

Colder than anticipated weather across North America and weather forecasts that point to colder than expected temperatures are the key driver of the latest spike in natural gas prices. However, this won't be enough to sustain firmer prices for the long term.

The push to cleaner sources of energy in the post-Paris Agreement on climate change will trigger greater demand for natural gas, which is considered to be the fossil fuel with the lowest emissions. It has thus become the transitional fuel of choice for electricity generation and heating.

According to the International Energy Agency (IEA), natural gas will account for around a quarter of all energy consumed globally by 2040. Asia, Latin America and the Middle East will be responsible for 80% of the world increase in consumption of the fuel over that period. Much of the hype surrounding natural gas and the belief that prices are poised to move higher over the long term is based on an anticipated massive surge in demand driven primarily by China.

The East Asian nation's appetite for natural gas is forecast to surge as Beijing focuses on reducing eye watering levels of air pollution by shuttering coal-fired power plants and preventing households from burning coal for heating. Between now and 2023, China's growing thirst for the low emission fossil fuel is expected to make up 37% of the total growth in consumption globally.

Growing demand especially in North America and Western Europe because of the shift to natural gas fired power is also expected to give prices a solid lift.

While these factors certainly mean that demand for natural gas will expand at a solid clip, they may not be enough to significantly boost prices as some analysts expect.

You see, on the supply-side, global natural gas production is increasing at a rapid rate. A key driver of the anticipated surge in global supply is the rapid expansion of U.S. shale oil production. The IEA expects that industry to lead global gas production growth over the next five years.

Canadian natural gas production is also seeing rapid growth, with a boom underway in the prolific Montney and Duvernay shale formations, which are forecast to hold an estimated at 500 trillion cubic feet of natural gas and 20 billion barrels of natural gas liquids.

For these reasons, some analysts are forecasting that global supply will exceed demand over the long-term despite the anticipated strong growth of natural gas consumption. That will cap the upside for natural gas prices, which means that they will weaken once the unusually high seasonal demand being experienced diminishes.



**So what?**

Nonetheless, this shouldn't deter investors from taking advantage of the positive short-term outlook for the fuel. Arc is an attractively valued means of playing higher prices over the short term. It is focused on the Montney, where it has reserves of 836 million barrels of oil equivalent valued at $12.61 per share, which is 29% greater than its current market price.

Arc's operations are highly profitable. For the third quarter 2018 it reported an impressive netback of $20.48 per barrel produced**,** which was 26% greater than the same period in 2017 and among the highest for its industry. The driller is focused on growing its production at a compound annual growth rate (CAGR) of 10% from 2019 to 2021. That will allow Arc to take full advantage of higher natural gas prices which along with a focus on reducing costs will give its earnings a solid boost, even if higher natural gas prices aren't sustained over the long-term.

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