3 Small Gas Stocks for Dividends

Description

Looking to get exposure to natural gas companies but do not want to buy into a high-risk producer or driller? The fact is that you don't have to invest in one of these companies to gain exposure to the sector. There are a number of small Canadian companies that pay great dividends, provide exposure to the commodity, and are quite diversified.

Enerflex (TSX:EFX)

By designing and manufacturing facilities for natural gas transportation as well as providing support, services, and parts, Enerflex is positioned to benefit, as many countries begin to use natural gas as a bridge fuel to renewable energy. This strategy positions the company to benefit from the increasing global adoption of natural gas.

The company is focusing on increasing recurring revenue through its service offerings. In 2018, Enerflex's recurring revenue grew by 12.9% year over year. Total revenue growth was also healthy, increasing by 9.7% over 2017. Operating cash flow grew by a healthy 20.7%. These numbers powered a dividend increase of 10.5% in 2018. The company pays a dividend of 2.20% at the time of this writing.

Pason Systems (TSX:PSI)

Pason is a great integration of technology and the oil and gas industry. The company provides integrated drilling data systems for oil and gas drillers. The stock suffered much less than other companies in the sector for a couple of reasons. It has a rock-solid balance sheet, for one thing, with $203 million in cash and no debt as of year-end 2018. Its financial performance is also fantastic, increasing full-year 2018 revenue 25% over 2017 and fund flows from operations by 48%.

As an efficiency solutions company to drilling companies, its earnings are tied to the oil and gas industry. This means that it is not immune to a downturn in the sector, and the last few years have exposed this weakness. Its dividend, for example, was not raised for a couple of years during the worst of the downturn, but it was not cut either. At present, Pason pays a pretty decent yield of just under

4%. Furthermore, it raised its payout in 2018 by $0.02 or 2.8%.

Just Energy Group (TSX:JE)(NYSE:JE)

Although Just Energy is not technically operating in the oil and gas industry, it does have a relationship to the space; this company has a close relationship to the natural gas commodity space. The company essentially provides contracted services to individuals and businesses that help them optimize their energy usage.

In the third quarter of 2019, as reported by the company on December 31, 2018, Just Energy produced good financial results. Just Energy increased sales by 6% and base EBITDA. Base funds from operations were down 15%, unfortunately, and its debt is a little higher than I'd like. Bad debts and increased administration costs cut into earnings, reducing profitability somewhat. The dividend-payout ratio as a percentage of base funds from operations remained intact at 67%, however. This means the company should be able to maintain its 11% dividend for the time being.

Who should invest in these companies?

But in order to invest in any of these companies, you need to be comfortable with a couple of things. They are smaller companies by market capitalization, so you have to be willing to accept any added volatility associated with that fact. In the case of Just Energy, you will have a higher yield, but the payout may be under pressure if its high debt begins to affect the company. Oil and gas volatility will also affect these names, although perhaps not as much as the producers themselves.

All three of these companies are related to the natural gas energy industry but are not producers of the basic commodity. Owning these companies will give you great dividends that will satisfy the needs of income investors.

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