Why Is This Small Natural Gas Stock Up 37%?

### Description

Natural gas prices have been depressed for more than a decade. While many bottom-pickers have called for a turnaround, each spike higher has always been reversed over the coming months.



Unless you can produce natural gas at incredibly low prices, it's hard to turn a profit. Most producers aren't specifically targeting natural gas, but end up acquiring the commodity while drilling for oil. Often, these producers are willing to sell their natural gas output for nearly any price.

Given this backdrop, it was odd to see the stock of natural gas company **Valener Inc** (TSX:VNR) rise nearly 40% since 2019 began. What has Valener done to earn the stock market's praise?

## This stock is different

Take a look at the price graph of Valener over the past decade or so and you'll see something odd: this natural gas stock has actually *gained* in value while also demonstrating low levels of volatility. That performance is basically unheard of in its industry.

Even more impressively, the company has been paying a steadily-rising dividend since 2010. Even after the recent run, shares still have a dividend yield of 4.5%.

Valener is one of the only natural gas stocks that has delivered high, reliable dividends with limited volatility since the decade began. The secret has been to operate more like a utility than a producer.

When you buy shares in Valener, you're actually purchasing a holding company that has a 29% interest in Énergir, L.P. and a 24.5% interest in a wind power company. Énergir, L.P. contributes roughly 90% of Valener's cash flows, so we'll focus on that.

Énergir, L.P. is a natural gas distribution company, not a producer. That means it's essentially a middleman, offering transportation solutions like pipelines and end-user access through its regulated utility businesses. Currently, this business has $7.5 billion in assets with 2,000 employees.

Using its scale, Énergir, L.P. is able to serve 520,000 customers. It delivers 97% of Quebec's natural gas needs and also 100% of Vermont's. Its businesses are either completely regulated or operate on long-term price purchasing agreements that guarantee certain levels of income and pricing.

So, Valener has beat the natural gas blues by focusing on transportation and distribution rather than production. Its association with natural gas, however, has caused the stock to trade at a discount. Until recently, its dividend has delivered a consistent annual income stream between 7-10%.

For nearly a decade, Valener was one of the best dividend stocks on the market. A few weeks ago, everything changed.

## Buyout fever

In March, Valener agreed to be purchased by Noverco, the controlling partner of Énergir, L.P. The deal is expected to go through at $26 per share, roughly 30% higher than Valener's predeal closing price. That price is also around 10% higher than the stock's all-time high trading price.

The synergies are clear. After the acquisition, Noverco will fully own the Énergir, L.P. business unit, with the ability to streamline back office costs and dictate operational strategy unilaterally.



Unfortunately, Valener shares now trade *above* the buyout agreement, meaning that investors who purchase shares today are set to lose money after the sale is finalized. It seems like Noverco was finally willing to give Valener the premium it deserved.

While this opportunity is likely over, keep this stock on your watch list. If the acquisition fails for some reason, Valener stock would likely plummet, providing yet another chance to buy a reliable, high-income stock on the cheap.

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rvanzo