3 Natural Gas Stocks Worth Buying in 2019

Description

Natural has been a tough pitch for nearly a decade. In 2008, prices were as high as US$18. Over the past 10 years, prices have averaged just $3.50, however.

In response, the stocks of most natural gas producers have fallen by 50% of more, and several companies have gone bankrupt.

However, there's light at the end of the tunnel.

Natural gas prices in Europe and Asia are already 200% to 400% higher than North America due to supply dynamics.

Companies like **Cheniere Energy, Inc** are readying export terminals that will allow North American producers to achieve global pricing parity, which could cause prices to surge over the next few years starting as early as the final months of 2019.

If you want to capitalize on this opportunity, check out the following stocks, none of which have a massive turnaround priced in.

Tourmaline Oil (TSX:TOU)

Fool contributor Christopher Liew characterizes Tourmaline as a natural gas company "defying the odds" despite operating in a troubled industry.

Now Canada's second-largest natural gas producer, Tourmaline has used its size to insulate cash flows, reinvesting in the business to boost production.

Due to depressed selling prices, rising production hasn't resulted in a rising stock price. Since 2010, shares have returned roughly 0%. If natural gas prices rise to global levels, however, Tourmaline would benefit immediately.

In 2014, when natural gas prices were around US$5—roughly where European and Asian prices are today—Tourmaline stock was 150% higher. Tourmaline is a perfect way to play rising prices while limiting your downside risk.

Peyto Exploration and Development (TSX:PEY)

Peyto explores and operates natural gas projects in Albert's Deep Basin region. It's a much smaller competitor, roughly one-fifth the size of Tourmaline, which gives it a few advantages.

First, it's a pure-play bet on a historically profitable property.

Over the last 20 years, Peyto has posted an average return on capital of 16% and average returns on equity of 29%. Those metrics are slightly misleading given the depressed pricing in recent years, but it does give you insight into how the business could perform if its output fetched global prices.

Most important, Peyto's management team has been diligent in returning excess capital to shareholders, rather than reinvest to grow the company at all costs.

Cumulatively, the company has paid out $18.96 per share in dividends. The stock price today is just $5.60, meaning that Peyto has done a terrific job getting profits into the hands of investors in a timely manner.

If natural gas prices surge, Peyto should benefit directly. With its long history of focusing on shareholder returns, investors are likely to benefit as well.

Encana Corp (TSX:ECA)(NYSE:ECA)

Encana has worked hard in recent years to reduce its exposure to natural gas. Today, you'll get the upside of rising natural gas prices with the downside protection of its oil exposure.

Today, around 45% of Encana's production comes from natural gas, with the remaining coming from liquids such as crude oil. Since the end of 2014, Encana has more than tripled its liquids production.

Because oil is currently much more profitable, Encana is free cash flow positive, thereby allowing it to run a $1.25 billion share buyback program. So far in 2019, it has repurchased 91 million shares for $7.19 per share. Already, Encana has turned a profit on these purchases.

While its smaller natural gas exposure limits direct upside, the sizable buyback program (roughly 10% of the company) gives Encana investors a leveraged way to play higher prices.

CATEGORY

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TICKERS GLOBAL

1. TSX:PEY (Peyto Exploration & Development Corp)

2. TSX:TOU (Tourmaline Oil Corp.)

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