Ignore Weak Natural Gas: 1 Top Natural Gas Stock to Buy and Hold Beyond 2020

Description

The outlook for natural gas remains weak despite growing demand for what is described as the clean fossil fuel. After rallying strongly toward the end of August 2019, the fuel has pulled back sharply to see the North American Henry Hub benchmark down by 24% for the year to date and trading at around US$2.20 per million British thermal units (MMBtu).

This has sparked considerable concern that natural gas will continue to fall and ultimately plunge below the US$2 per MMBtu mark, which would be disastrous for many North American drillers.

However, one very attractive natural gas producer to own is **Canacol Energy** (TSX:CNE). The driller, which operates in Colombia where it has amassed mineral concessions totalling almost 1.2 million net acres, is ideally positioned to benefit from local market dynamics and has gained 3% since the start of 2019 despite weaker natural gas.

Favourable local market

The dynamics of Colombia's domestic energy market see Canacol earning a price for every MMBtu sold that is significantly higher than the North American benchmark, giving it a handy financial advantage over its peers operating solely in North America. There are signs that Canacol is poised to soar over coming months as it takes full advantage of those favourable market dynamics, expands production, and improves access to local energy markets.

Key to Canacol's success has been Colombia's emerging energy crisis where a shortage of natural gas supplies forced the once self-sufficient Andean nation to start liquified natural gas imports in 2017. An ever-widening supply gap caused by a lack of major hydrocarbon discoveries over the last decade, aging offshore natural gas fields, rising well decline rates, and rapidly growing demand have led to higher-than-market prices.

Canacol estimates that during 2019 it will receive on average around US$4.83 per MMBtu sold net of transportation costs, which is more than double the current spot price in North America. It is also triple the Canadian natural gas AECO benchmark, which is currently at trading at US$1.60 per MMBtu, giving Canacol a very handy financial advantage over Canadian drillers such as **Painted Pony Energy** and **Peyto Exploration and Development**.

Growing production

While this is a key reason to own Canacol, another is that it has been rapidly expanding its natural gas production, thereby allowing the driller to maximize the financial benefit provided by higher Colombian natural gas prices. Third quarter 2019 natural gas sales reached approximately 146 million standard cubic feet daily (MMscfpd) which was a notable 21% greater than the quarter prior, while for the first nine days of October, sales averaged an impressive 211 MMscfpd.

That significant increase in production and sales volumes will give Canacol's third quarter earnings a healthy lift.

Canacol continues to experience an enviable rate of exploration success, recently encountering natural gas at its Clarinete 4 development well. This forms part of its US$119 million 2019 capital plan, where Canacol expects to drill six exploration and two development wells. Canacol's impressive exploration success rate of 81% bodes well for reserves growth.

By the end of 2018, it had proven and probable natural gas reserves of 559 billion cubic feet (bcf), giving it a spectacular 55% compound annual growth rate (CAGR) between 2013 and 2018.

Foolish takeaway

The poor outlook for natural gas is weighing heavily on Canadian drillers, particularly because of the deep discount applied to the Canadian AECO benchmark against the Henry Hub price.

Nonetheless, Canacol is uniquely positioned to perform strongly and deliver considerable value for shareholders because of significantly higher natural gas prices in Colombia, improved infrastructure providing it with greater access to energy markets, and its proven ability to grow production.

For those reasons, Canacol's earnings will continue to expand at a healthy clip, ultimately boosting its market price, making now the time to buy.

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