1 Top Natural Gas Driller to Buy in November

Description

Natural gas, known widely as the clean fossil fuel, has rallied sharply off its August 2019 lows to now only be 6% down since the start of 2019. This — along with a more upbeat outlook for the economy because of the Fed's latest interest rate cut and a looming winter — bodes well for natural gas to rally further. Some analysts are predicting that the fuel could rise to over US$3 per million British thermal units (MMBtu) as consumption increases. That bodes well for beaten-down natural gas producers, which have suffered because of a growing supply glut that caused prices to slump.

One driller that has performed strongly over the last year is **Canacol Energy** (TSX:CNE). The company gained 26% over that period compared to the North American benchmark Henry Hub losing 22%. The reason for this is quite simple, Canacol is poised to benefit considerably from an emerging energy crisis in Colombia, where its operations are located.

Favourable market dynamics

Colombia, after years of being self-sufficient, was forced to start importing natural gas in late 2017, as a range of domestic supply constraints and growing consumption led to a shortfall. This is being exacerbated by a dearth of discoveries and rapidly increasing decline rates at Colombia's aging offshore natural gas fields.

That has created a situation where Canacol has been able to secure take-or-pay contracts for the natural gas that it produces with substantially higher prices than the Henry Hub price. This not only gives the driller a financial advantage over its North American peers but also makes it relatively immune to the poor outlook surrounding the fossil fuel. Canacol has locked in a price of US$4.83 per MMBtu net of transportation costs, which is almost double the North American benchmark price.

Canacol reported some solid third-quarter 2019 results, including a 18% year-over-year increase in production, a 41% growth in funds from operations (FFO), and a 28% increase in EBITDAX.

The driller's notable exploration success rate of 83%, consistently growing natural gas production, as well as reserves and focus on reducing expenses bode well for further earnings growth. The driller is also experiencing solid sales growth as demand for natural gas in Colombia grows and improving pipeline as well as storage infrastructure boosts its access to local energy markets.

The completion of the Jobo to Cartagena pipeline earlier this year expanded Canacol's access to the vital coastal natural gas market. There is also a planned 300-kilometre pipeline from Canacol's operations in northern Colombia to the Andean nation's second-largest city Medellin, which is anticipated to be completed by the end of 2023. That is expected to support a 47% increase in the volume of natural gas sales between the end of 2019 and 2023, giving earnings a massive boost.

Foolish takeaway

Canacol remains a top play for investors seeking exposure to oil and natural gas. A combination of growth initiatives and a favourable operating environment in Colombia will see the driller continue to unlock considerable value for shareholders. When that is considered in conjunction with its copious and growing natural gas reserves, and a recent recovery in North American prices, now is the time to buy Canacol.

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Date
2025/08/15
Date Created
2019/11/09
Author
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