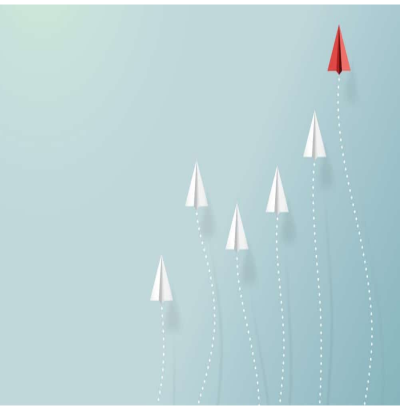

Why This Energy Stock Is up 24% This Month

Description

It is nearly impossible to find an investor that cares about natural gas stocks these days. Unlike two decades ago, natural gas prices have tanked and appear to be headed nowhere fast. It is understandable that investors have kept their distance for fear of getting burned. I personally have been somewhat burned, but today I wonder if it is finally advisable to become more bullish.

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Up 24% so far this month, **Nuvista Energy** (TSX:NVA) stock is telling us a story. With a 60% natural gas weighting and a growing presence in the prolific Montney region in the Western Canadian Sedimentary Basin, Nuvista is a quality oil and gas exploration and production company that has survived a brutal many years plus maintained a relatively healthy balance sheet.

Nuvista stock trades at depressed cash flow multiples as a reflection of the very difficult environment that the Canadian oil and gas sector has struggled with, but if we take into consideration strong company-specific performance and early signs of an industry that has nowhere to go but up, then we might have a strong buy case.

Rig counts and drilling are at record lows

According to Peters & Co., an equity research and investment banking firm that specializes in oil and gas, Canadian drilling activity is at more than 25-year lows. With activity levels in Canada roughly 40% lower versus last year and 13% lower in the U.S., we can see that the carnage is ongoing.

According to some estimates, natural gas demand is expected to increase by as much as 45% by 2040, driven largely by Asian economies, as they make the switch from coal to natural gas and as their economies continue to grow.

Demand boost coming from LNG?

We know that Canada is very well positioned to be a potential supplier to overseas markets such as Asia, and recent LNG project approvals have given some industry watchers increased comfort in this potential opportunity.

For example, last year, after years of talks, of a deal almost happening then being put on hold indefinitely, LNG Canada finally announced the approval of its mega LNG project. It opens up the demand side of the equation, bringing in more customers from around the world. It opens up pricing, effectively eliminating the discount that AECO (Canadian natural gas price) has been trading at relative to NYMEX (New York exchange natural gas price) and natural gas pricing around the world, which is higher.

Today, there are reportedly roughly 1,000 workers at the Kitimat, B.C., site in preparation for the main construction phase. While construction isn’t expected to start for a couple of year, it is at least moving forward. Also, a group of Canadian natural gas producers have taken action and are banding together to open the market for their natural gas to world markets. They are considering building a floating LNG project, which could possibly be online by 2026.

Nuvista outperforms

In the meantime, Nuvista is a natural gas company that is outperforming its peers. With a focus on the scalable and repeatable condensate-rich area of the Montney formation in Alberta, Nuvista forecast 10-15% production-per-share growth this coming year. The stock’s valuation is among the lowest in its peer group, as is its debt burden.

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Foolish bottom line

While the LNG opportunity is admittedly a long way off, the domestic natural gas market may get some relief in the long term, as drilling remains at record lows, meaning that the supply side of the equation should move in the right direction for natural gas pricing. Nuvista stock is a solid, quality energy stock that stands to benefit from these developing stories.

CATEGORY

1. Energy Stocks
2. Investing

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1. Editor's Choice

TICKERS GLOBAL

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