Latest News Confirms This Is the Only Natural Gas Stock to Own

Description

Natural gas remains caught in a multi-year slump despite claims by some pundits that it is poised to rally significantly because of growing consumption. The North American Henry Hub benchmark has lost 17% for the year to date to be trading at US$2.40 per million British thermal units (MMBtu). There are signs that it could move lower, regardless of increased seasonal demand. The key reason for this is that global natural gas production is growing at a rate which is exceeding demand growth.

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This is weighing heavily on the outlook for the industry and indicates that most natural gas stocks are a poor investment. There is, however, one driller that is performing strongly and is not impacted by sharply weaker natural gas prices. That company is **Canacol Energy** (TSX:CNE) which has gained 9% since the start of 2019 despite natural gas losing a whopping 17%. There is every indication that Canacol's earnings and market value will continue to grow regardless of the poor outlook for the fossil fuel.

Supply constraints

Canacol is well positioned to benefit from the unique market dynamics of the jurisdiction in which it operates, the Latin American nation of Colombia. A lack of major natural gas discoveries in Colombia and rapidly rising decline rates at aging fields has seen supply fall significantly in the Andean nation. That coupled with a marked uptick in demand forced Colombia to start importing liquified natural gas in 2017.

When coupled with a steadily worsening balance of trade, an emerging fiscal crisis, and declining hydrocarbon reserves, the Colombian government has taken measures to promote greater foreign investment in the domestic energy industry. This has seen the regulatory framework simplified and taxes reduced to make the nation a more attractive destination for foreign energy companies.

For these reasons, Canacol, which over the last five years has focused on pivoting its operations to becoming a natural gas producer, is ideally positioned to profit from Colombia's supply constraints. Canacol has locked-in take or pay contracts with an average price of US4.84 per MMBtu, net of transportation costs, which is just over double the North American benchmark price. That highlights the considerable profitability of Canacol's operations and the financial edge it has over its peers operating solely in North America.

Furthermore, unlike Canadian drillers, Canacol is not exposed to the discount applied to the Canadian AECO natural gas benchmark which sees it trading 19% lower than the Henry Hub price. The superior profitability of Canacol's operations becomes apparent when comparing its operating netback to those of Canadian natural gas drillers. For the third quarter its netback was US$3.86 per million cubic feet (mcf) of natural gas produced, compared to US$1.71 for **Arc Resources**, **Painted Pony's** US$0.80, and **Peyto's** US$1.21 per mcf.

More importantly, Canacol can continue to leverage off the unique market conditions that exist in Colombia because of growing production, the increased accessibility of local energy markets, and expanding demand.

Colombia's natural gas supplies will remain constrained for the foreseeable future, with no new major discoveries in sight. The ongoing crisis in Venezuela, which was responsible for supplying around 78% of all of Colombia's natural gas imports, has caused that source to be virtually closed off.

A new natural gas pipeline is being planned for construction between Canacol's natural gas fields and Medellin, giving it access to Colombia's second-largest city. The pipeline, on completion in 2023, is expected to boost Canacol's natural gas sales by 100 million standard cubic feet daily, thereby giving its earnings a solid lift. Canacol also recently announced the commencement of the production of liquified natural gas (LNG) in Colombia, making it the first such operation in the country. That will further expand its ability access domestic energy markets, further boosting sales.

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Delivering value

The unique conditions that exist in Colombia's energy market means that Canacol is immune to weaker natural gas prices and is well positioned to unlock value from its energy concession, which will boost earnings and ultimately its market value. The strength of Canacol's position is underscored by its recent announcement to reward shareholders through the introduction of quarterly dividend payments which are expected to give it a juicy yield in excess of 4%. For these reasons now is the time to buy Canacol before its stock soars.

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