The Best Natural Gas Stock to Buy for 2020

Description

Natural gas is caught in a deep multi-year slump and despite growing consumption it appears that the fossil fuel will be soft for the foreseeable future, as natural gas production across the globe is expanding at a furious clip, significantly outstripping demand growth in many key markets including North America, where massive production increases are being driven by the shale oil boom.

As a result, the North American Henry Hub benchmark has lost 22% since the start of 2019, to be trading at US$2.19 per million British thermal units (MMBtu), and the fossil fuel appears poised to fall further.

While this is having a marked impact on many Canadian natural gas drillers, one which is defying the trend is **Canacol Energy** (TSX:CNE).

Long-life assets

The company, which is focused on natural gas exploration and production in the Latin American nation of Colombia, has gained 10% since the start of 2019 and is poised to deliver further value.

Canacol has amassed impressive proven and probable natural gas reserves of 559 billion cubic feet. When combined with its oil and other petroleum liquids, Canacol has net total proven and probable reserves of 83 million barrels of oil equivalent.

What makes Canacol a compelling investment is that it has locked-in take and pay contracts for the natural gas that it produces of US$4.84 per MMBtu, more than double the North American benchmark.

The reason for this is quite simple; Colombia is experiencing an emerging energy crisis that's fuelling a broader economic malaise.

A combination of aging offshore natural gas fields with high decline rates and a lack of largediscoveries in recent years has sharply impacted domestic supply forcing Colombia to start importingnatural gas.

In order to reduce a ballooning trade deficit while boosting oil and natural gas reserves, Bogota has introduced measures aimed at attracting investment in the energy patch.

This situation will continue for the foreseeable future because of growing demand placing considerable pressure on already constrained natural gas supplies, thereby allowing Canacol to secure contractual prices for the natural gas it sells at well above the North American and Canadian benchmark prices.

Canacol is also in the process of rapidly growing sales and expanding its reach to Colombian energy markets which, when combined with growing production, will give earnings a healthy lift.

The driller has grown its natural gas sales at a solid clip, forecasting that it will average sales of 150 million standard cubic feet daily (MMscf/d) which represents a year over year increase of 35%.

By 2023, Canacol estimates that its natural gas sales will be over 300 MMscf/d, more than double forecast 2019 sales. That considerable growth is contingent on the successful construction of a 100 MMcf/d pipeline connecting Canacol's natural gas fields in Northeastern Colombia to the nation's second-largest city Medellin in the Northwest.

The company is also focused on reducing its operational expenses, which by the third quarter 2019 were 40% lower than a year earlier. This will give profitability a healthy boost, which when combined with rapidly growing production and sales volumes will lift earnings.

Canacol also has an impressive exploration success rate of 83%. When coupled with the driller's existing exploration acreage and its acquisition of three conventional natural gas exploration blocks in the Lower and Middle Magdalena Valley basins, will allow reserves and production to continue growing.

Foolish takeaway

Canacol's natural gas reserves, production and profitability will continue growing at a solid clip giving earnings a solid boost, thereby lifting its share price.

That, along with Canacol trading at a 17% discount to its after-tax net asset value (NAV), makes now the time to buy and profit in 2020, with the driller's market value poised to soar during 2020.

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