



Latest News Highlights Why This Is the Only Natural Gas Stock to Ever Own

Description

I have [been bearish](#) on natural gas for some time. What's regarded as the clean fossil fuel is caught in a prolonged slump despite growing consumption globally. Gas recently plunged below US\$2 per MMBtu for the first time since 2016, hitting a multi-year low of US\$1.89 per MMBtu before recovering slightly to see it down by 35% over the last year.

There are signs of worse times to come for the fossil fuel, and even winter, when gas consumption increases, a falling U.S. natural gas rig count and growing demand for the fossil fuel have done little to boost prices.

This is weighing heavily on North American gas producers. Canadian drillers **Painted Pony Petroleum** and **Peyto Exploration & Development** have plunged by 55% and 56%, respectively, over the last year.

In contrast, upstream gas producer **Canacol Energy** ([TSX:CNE](#)) has declined by a modest 2%, creating an opportunity to acquire a gas producer that's relatively immune to the [poor outlook](#) facing the fuel at an attractive valuation.

Optimistic outlook

Canacol's key strength lies in its ability to access Colombia's energy market. An emerging energy crisis coupled with growing demand for gas has created a unique environment in which Canacol has contractually locked-in gas prices that are significantly higher than the Henry Hub benchmark.

As a result, Canacol has secured an average take or pay price of US\$4.84 per MMBtu net of transportation costs, more than 2.5 times greater than the North American price.

While there are some concerns that prices in Colombia will fall, this appears highly unlikely for the foreseeable future. The South American nation is highly dependent on gas as a source of energy.

While Colombia was self-sufficient, a combination of rising decline rates at aging offshore natural gas

fields, a dearth of major discoveries for over a decade and growing consumption forced the Andean nation to begin liquefied natural gas imports in 2017.

Since that time, rising demand for the fuel has caused the shortage to worsen, leading to higher prices for gas produced domestically as Bogota battles to improve its balance of trade and avert a fiscal crisis.

There are signs that even the push to introduce fracking in Colombia and boost hydrocarbon exploration and production will do little to alleviate domestic natural gas shortages.

For these reasons, Canacol can continue to secure prices for the gas that it produces, which are significantly higher than the North American benchmark, giving it's a handy financial advantage over its peers operating on the continent.

A significant development is that Canacol is well-positioned to keep growing its gas sales volumes. For the fourth quarter of 2019, sales grew by a stunning 23% quarter over quarter to 180 million standard cubic feet per day (MMscfpd), giving Canacol's earnings a solid lift.

Those volumes will continue to expand during 2020 and beyond. Canacol anticipates that 2020 sales will grow by 37% year over to 205 million MMscfpd and reach 300 MMscfpd by 2023 once the Promigas natural gas pipeline to Colombia's second-largest city, Medellin, is completed.

This will give Canacol's earnings a solid boost, with expectations that 2020 EBITDA will expand by times compared to 2019 to US\$265 million, 66% higher than the company's trailing 12-month EBITDA at the end of the third quarter 2019.

Canacol is also very attractively valued given that it's trading at a 26% discount to its after-tax net asset value of \$5.29 per share, indicating that considerable upside — and making now the time to buy.

Foolish takeaway

Regardless of the poor outlook for natural gas, Canacol is an appealing play in the fossil fuel because of the favourable dynamics in Colombia's energy market.

Its ability to significantly grow EBITDA coupled with Canacol trading at a discount to its NAV makes now the time to buy — before its stock rallies higher.

CATEGORY

1. Energy Stocks
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TICKERS GLOBAL

1. TSX:CNE (Canacol Energy Ltd)

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