1 Top Canadian Natural Gas Stock to Beat the Coronavirus Energy Price Collapse

Description

Natural gas has lost a whopping 21% since the start of 2020 seeing the North American Henry Hub benchmark trading at US$1.72 per million British thermal units (MMBTU). At that price, many drillers are incurring tremendous losses. That makes natural gas stocks highly unattractive investments.

Nonetheless, one natural gas stock that is poised to rally and will avoid any significant earnings hit in the harsh operating environment is **Canacol Energy** (TSX:CNE). The driller has lost 22% for the year to date compared to the broader TSX, which is only down by 18%. This indicates that Canacol is attractively valued, making now the time to buy.

Quality natural gas assets

Canacol owns 1.5 million net acres in the South American nation of Colombia. The driller has proven and probable natural gas reserves of 624 billion cubic feet. Those reserves have been calculated to have an after-tax net present value of US$1.6 billion.

After deducting long-term debt, leases, and decommissioning liabilities, Canacol has a net asset value of $8.87 per share. That is over two times greater than its current market value, illustrating the considerable capital gains ahead.

The sharp discount applied to Canacol's shares saw the driller embark upon a share buyback where it intends to buy up to 14 million of its common shares.

The unique energy market conditions which exist in Colombia have allowed Canacol to secure favourable pricing for the natural gas that it produces. The driller has contractually locked in a price of US$4.80 per thousand cubic feet (mcf), which is almost three times greater than the North American Henry Hub benchmark. This gives Canacol a handy financial advantage over its peers operating in North America.

Importantly, because a considerable portion of Canacol's production is sold through take-or-pay contracts, the price it receives is significantly less volatile than spot prices. That significantly improves the certainty of Canacol's earnings.

Canacol also commenced paying a dividend in 2019 to reward loyal shareholders. That payment is currently yielding a very juicy 5.7%. A payout ratio of 21% coupled with the certainty of Canacol's earnings sales ensures that the dividend is sustainable.

Natural gas shortage

There is every likelihood that Colombian natural gas prices will remain significantly higher than the North American benchmark for the foreseeable future. A dearth of natural gas discoveries coupled with falling production from aging offshore fields means that supply can't keep up with demand.

Colombia has been caught on the cusp of an energy crisis for years. The Andean nation, which was once self-sufficient for natural gas, was forced to start importing liquefied natural gas in 2017 to close the supply gap. This — along with government incentives to increase investment in Colombia's energy patch — has done little to boost supplies and reserves.

Exploration upside

The company has an impressive record for exploration and well development. Canacol reported a drilling success rate of 83% for exploration wells and 87% overall for all drilling activity. This highlights it has considerable exploration upside, particularly when it has 1.4 billion cubic feet of risk prospective resources available.

That — along with Canacol actively adding to its acreage — will ensure that the driller's natural gas reserves keep growing.

Foolish takeaway

The poor overall look for oil and natural gas is weighing heavily on Canacol's share price. Canacol's unique operational attributes, including being able to obtain a price for natural gas sold, which is significantly higher than the North American benchmark, makes it an attractive stock to buy. Once the considerable fear surrounding the coronavirus pandemic subsides and there are signs of the economy returning to growth, Canacol stock will soar. While waiting for that to occur, you will be rewarded by that juicy 5.7% yield.

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