



1 Top TSX Energy Stock to Profit From the Natural Gas Crisis

Description

Energy prices, including natural gas are caught in a deep slump. In a shocking development, the North American West Texas Intermediate (WTI) benchmark price plunged into negative territory last week. While WTI has bounced back, it is trading at a mere US\$13 per barrel.

Natural gas, known as the clean fossil fuel, has lost 20% since the start of 2020. This sees it selling for US\$1.75 per million British thermal units. That is less than the breakeven price for many North American natural gas producers. That means that not only does the current harsh environment make them unattractive investments, but it will spark a spate of bankruptcies during 2020.

Nonetheless, one Canadian natural gas stock which has demonstrated that it is resistant to the crisis facing the industry is **Canacol Energy** ([TSX:CNE](#)).

On sale today

Canacol has lost 24% since the start of 2020, leaving it extremely attractively valued and trading at a deep discount to its indicative fair value. The driller, which operates in Colombia, has proven and probable natural gas reserves of 624 billion cubic feet of natural gas.

Those reserves have been determined to have an after-tax net asset value of US\$1.6 billion. Once long-term debt, leases and decommissioning liabilities are deducted, Canacol's net asset value after tax is \$9.80 per share. That is almost triple Canacol's market value, highlighting that it is trading at a 177% discount to its after-tax net asset value, underscoring the considerable potential upside available.

Unique market conditions

A significant headwind weighing on Canacol is the poor outlook for natural gas. The North American Henry Hub price has been caught in a protracted slump for some time, but what pundits fail to understand is that this benchmark doesn't apply to Canacol.

Early on, the driller identified that Colombia was on the cusp of experiencing an energy crisis, particularly where natural gas is concerned. The Latin American nation, which has a long history of energy self sufficiency, started liquefied petroleum gas (LPG) imports in 2017.

That can be blamed on dwindling supply and growing demand because the fuel is an increasingly popular [source of energy](#) for Colombia's burgeoning manufacturing sector. A dearth of major petroleum discoveries, aging offshore natural gas fields and dwindling investment mean that supply constraints will deepen.

That has created an imbalance and unique circumstances in Colombia, which sees natural gas commanding prices that are far higher than the Henry Hub price.

As a result, Canacol has been able to lock-in take or pay contracts for the natural gas that it produces of US\$4.80 per thousand cubic feet sold — 2.7 times the Henry Hub benchmark, giving Canacol a handy financial advantage over its North American competitors.

Solid earnings growth ahead

Notably, Canacol is expanding its natural gas production and sales by investing US\$114 million across the natural gas production value chain. This sees Canacol targeting the drilling of 12 wells during 2020, which includes nine exploration wells.

Canacol is also benefiting from increased market access. The ongoing development of natural gas infrastructure in Colombia, including a pipeline linking Canacol's fields to the country's second largest city, will boost sales. Canacol expects its sales to reach over 330 million cubic feet of natural gas daily by 2023.

Along with its focus on reducing costs and accessing new markets, this will give earnings a solid boost.

Foolish takeaway

The [uniqueness of Canacol's](#) position as the largest independent natural gas producer in Colombia and ability to lock-in contractual prices almost three times higher than the North American benchmark makes it a highly appealing investment.

This is enhanced by the certainty of Canacol's earnings, solid balance sheet, growing sales and regular quarterly dividend yielding a juicy 6%.

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