1 Top Canadian Natural Gas Stock to Buy Today

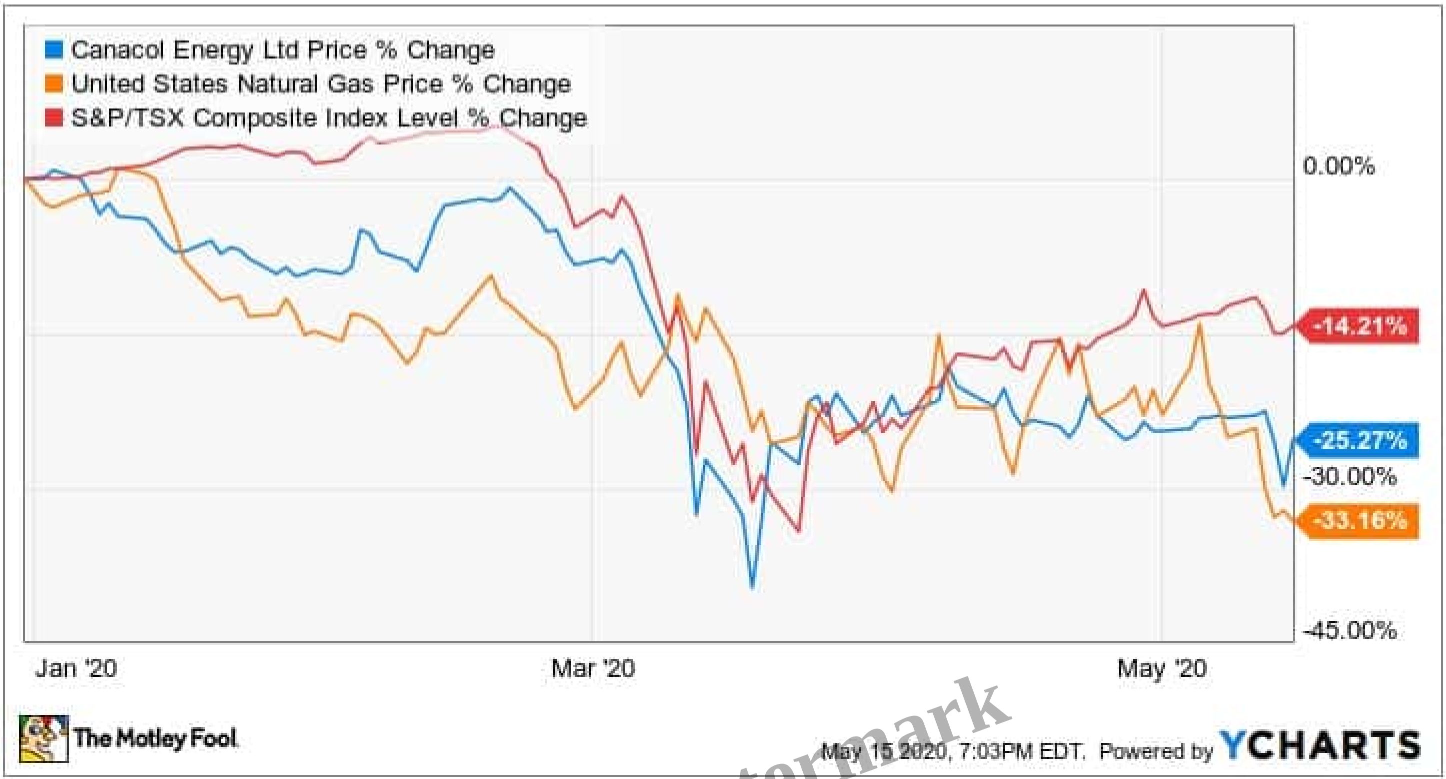
Description

Canadian natural gas stocks are being hammered by the fossil fuel's protracted price slump. Since the start of 2020, the Henry Hub North American natural gas benchmark has lost a whopping 23%. The outlook for natural gas is poor.

Even after rallying at the start of May, natural gas is only selling for US$1.64 per million British thermal units (MMBtu). This is below the breakeven price for many drillers. That places considerable pressure on North American natural gas explorers and producers.

Sharply weaker natural gas will trigger bankruptcies among Canadian natural gas stocks and the North American energy patch. This poor sentiment is reflected by the **United State Natural Gas Fund** losing 33% since the start of 2020.

One Canadian natural gas stock which has defied the poor market outlook is **Canacol Energy** (TSX:CNE). It continues to grow production, sales and earnings, but still can't shake the negative sentiment associated with natural gas drillers — that has seen Canacol lose 25% for year to date.



This does leave Canacol extremely attractively valued, making now the time to buy.

Solid results for a natural gas stock

Canacol reported some notable first quarter 2020 results. This includes an impressive 65% year over year increase in natural gas sales. EBITDAX, which is earnings before interest, taxes, depreciation, amortization and exploration expense, soared 43% compared to a year earlier.

As a result, Canacol's adjusted funds from operations (AFFO), a key measure of the funds flow its operations produce, popped by a notable 51%, but it reported a US$26 million loss. That marked decline in Canacol's bottom line can be attributed to a US$41 million non-cash deferred tax expense and US$4.3 million in foreign exchange losses.

This is important to note, because Canacol's earnings were not impacted by sharply weaker oil or natural gas prices.

The strong growth in AFFO is the result of a healthy expansion of natural gas production and sales, which will continue because of Canacol's focus on its drilling program and new energy infrastructure — notably when a pipeline connecting the driller's natural gas fields to the country's second largest city Medellin, is built.

Unique market conditions

In fact, because of the unique conditions in Colombian energy markets, Canacol remains insulated from the impact of weaker energy prices. These conditions have allowed it to lock-in take or pay wellhead prices for 80% of the natural gas its produces**,** which are significantly higher than the North American benchmark Henry Hub price.

To date, there have been no instances of force majeure impacting Canacol's natural gas sales.

These unique circumstances exist because of Colombia's emerging energy crisis. The Andean nation experienced a marked jump in demand for natural gas at a time when supply was declining. Rising decline rates at aging offshore natural gas fields, the loss of Venezuelan natural gas imports and a lack of major discoveries have triggered a substantial shortage.

To boost energy self-reliance, repair a deteriorating balance of trade and attract greater energy exploration**,** higher than market prices were introduced to attract greater investment from foreign energy companies. There are no signs of these unique market conditions ceasing any time soon.

Financial advantage over other natural gas stocks

For these reasons, Canacol has been able to contractually lock-in a wellhead price net of transportation costs of around US$4.80 per thousand cubic feet sold (mcf). This is around three times greater than the Henry Hub price giving Canacol a distinct financial advantage over North American drillers.

Even a sharp economic contraction won't cause demand to fall to a point where it matches supply, further enhancing the certainty of Canacol's earnings.

Canacol is an attractive natural gas stock to buy because it is trading at a third of its after-tax net asset value (NAV) of $9.54 per share. This highlights there are considerable capital gains ahead.

Foolish takeaway

Canacol is the only Canadian natural gas stock to own. It offers considerable potential upside, and even the coronavirus lockdown in Colombia has had minimal impact on its operations.

Those factors along with Canacol trading at a deep discount to its NAV makes now the time to buy. While waiting for its stock to rally, you will be rewarded by a dividend yielding a juicy 6%.

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