



Natural Gas Is Heating Up: Time to Buy This Top TSX Energy Stock

Description

Boy, how the energy sector is heating up right now. For top natural gas-oriented energy stock **Arc Resources** ([TSX:ARX](#)), this is certainly welcome news for investors. Indeed, for much of 2020 and 2021, Arc has been a [value play](#) that many investors simply didn't want to touch.

That makes sense. Natural gas has been one segment many pundits have pointed to as oversupplied. The thought was that demand would never outpace supply, and new supply coming onto the market would depress prices further. Seeing where natural gas prices have gone in recent years proves this point.

However, in recent days, we've seen a sharp turnaround in the price of natural gas. Accordingly, over the last month alone, ARX stock is [up more than 25%](#). That's not bad, given the current state of the energy sector right now.

Here's why I think Arc is a top energy stock to consider right now.

Risk/reward ratio is favourable for this energy stock

Rising natural gas prices obviously improve the risk/reward ratio for any company operating in this sector. For Arc, one of the major North American players in this regard, this is a fact that investors appear to be pricing in today.

Of course, analysts have jumped on this fact, highlighting the value ARX stock holds relative to its peers. **Canaccord Genuity** analyst Anthony Petrucci believes that this commodity price surge greatly improves Arc's investment thesis. With such stocks with high exposure to natural gas prices trading at roughly 2.7 times EV/EBIDTA, there's a lot to like about this stock from a valuation perspective.

On a cash flow multiple basis, this thesis rings true as well. Indeed, there's no doubt Arc's multiples are low right now. It appears investors may not trust the fact that natural gas prices will remain elevated for a significant period of time. And that may be true.

However, should the market for natural gas be pricing in more stability at higher levels, Arc could be a top energy stock to buy right now.

Bottom line

I have no doubt Arc will post some seriously positive numbers in the quarters to come. However, whether the market acknowledges these cash flows as sustainable or not is the question investors need to ask.

Commodities have recovered in impressive fashion from last year's pummeling. That's true. However, natural gas remains one of the more volatile commodities to bet on, and this has been proven over time. Accordingly, there is a level of risk with ARX stock investors are taking.

That said, given the risk/reward ratio of this company, I'm inclined to view this value stock favourably. Indeed, there are few pockets of value in the market as obvious as Arc right now. Accordingly, those seeking value can't go wrong by considering Arc at these levels.

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Date

2025/08/22

Date Created

2021/09/29

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