



## Are Canadian Natural Gas Stocks the Next Suncor Energy?

### Description

Natural gas is the new oil. Every stock with the slightest exposure to natural gas is rising, and this is just the beginning. Natural gas stocks are like **Suncor Energy** in January 2022. (Suncor stock surged 59% between January 1 and June 9 as oil prices surged over 60% from US\$76 to US\$122/barrel).

## Natural gas stocks could see a bigger rally than oil stocks

Natural gas prices have surged over 200%, and most of this increase started in June when Russia reduced the supply of natural gas to Europe through the Nord Stream 1 pipeline, the same reason why oil prices surged. Europe imports 40% of its natural gas needs from Russia. Natural gas could see a bigger rally than oil for three reasons.

### 1. Natural gas demand depends on temperature

Firstly, natural gas demand depends on temperature as it is used in Europe for heating and cooling. The heat waves in the United Kingdom increased the demand for natural gas, creating a shortage. If the winters get colder, Europe doesn't have enough natural gas, with Russian gas out of the equation. The European Commission has even taken [gas rationing](#) measures to reduce gas demand by 15% between August 1, 2022, and March 31, 2023. This means that natural gas prices could surge significantly during this period.

### 2. A significant amount of natural gas is sold at spot prices

Secondly, most industrial consumers do not have long-term supply contracts for natural gas. They have no hedge against increased prices, as liquefied natural gas (LNG) is sold at spot prices instead of using futures contracts. Thus, natural gas prices have surged 100%, whereas oil prices are up about 32% year-to-date (as many consumers had futures contracts to secure their supply). Europe is now entering into long-term supply agreements with natural gas producers. As spot prices are already high, these supply contracts are locking in higher gas prices for a longer term.

### 3. Lack of natural gas infrastructure

And lastly, to export natural gas you need to convert it into liquid at -162 Celsius, fill it in tankers and ship it. The consumer market needs LNG terminals to convert it from liquid to gas. Some European countries invested in these terminals, but Germany didn't and is now suffering from a gas shortage crisis.

The United States is the biggest beneficiary of the gas crisis as it has become the world's largest LNG exporter due to its exports to Europe.

## Two Canadian natural gas stocks to buy now

### Canadian Utilities

Canada's first LNG export facility is expected to come online in 2026. In the meantime, Canadian [energy stocks](#) with exposure to natural gas will benefit from the European gas crisis.

**Canadian Utilities** ([TSX:CU](#)) produces, stores, and distributes electricity and natural gas, but at regulated prices. Despite this, the stock has surged 12.5% since mid-June when Russia reduced its natural gas supply to Europe. The stock will benefit from the natural gas price surge. By investing in Canadian Utilities now, you can lock in a 4.46% dividend yield and fight upcoming inflation fuelled by natural gas prices.

### AltaGas

**AltaGas** ([TSX:ALA](#)) does everything across the natural gas supply chain, from distribution to power generation to selling it to commercial and industrial users to export. Well-positioned to benefit from the natural gas supply shock, it currently earns higher revenue from the United States than Canada.

AltaGas stock price has surged 11% since mid-June when Russia began to reduce its natural gas supply. It is still trading at an attractive price as the stock has not yet fully recovered from the 17.5% dip in the first half of June. You can buy the stock now and lock in a 3.77% dividend yield and a potential 50-80% stock rally if Russia continues to create a natural gas supply shortage.

Europe is hoarding LNG. The ships supplying LNG to Asia are being routed to Europe, creating a shortage in Asia too. AltaGas' midstream business is exporting record amounts of propane and butane to Asian markets, driving up its EBITDA 55% and [dividend](#) 6% in 2021. The management sees a "tremendous opportunity to export cleaner LPG to Asia". Do not be surprised if it announces more

dividend growth in December 2022.

## CATEGORY

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