Is Keyera (TSX:KEY) Stock a Buy?

Description

Energy stocks have been in the limelight in 2022 as the Russia-Ukraine war disrupts the global energy supply. Oil and gas prices have surged as Europe faces its worst energy crisis. This bullish cycle of oil and gas has pushed all energy stocks up. One beneficiary of rising energy prices is **Keyera** (TSX:KEY), a midstream oil and gas company. Keyera's stock is surging alongside energy prices, spiking 22% between the January-to-June period when oil prices surged 16% and continuing the rally into July when natural gas prices surged.

Is Keyera stock a buy at $31?

How Keyera earns money

As a midstream company, Keyera collects oil and gas from producers and processes, transports, stores and markets it. Keyera links energy producers to energy consumers through its integrated energy infrastructure. It has divided its earnings into three segments:

The Gathering and Processing segment comprises gas plants and a 4,400-kilometre gas gathering network. This segment's earnings depend on the natural gas volumes transmitted and processed. Keyera generates industrial chemicals like propane, ethane, butane, condensate, and iso-octane by processing natural gas liquids (NGL).

The Liquids Infrastructure segment deals with oil transmission. The Marketing segment supplies processed oil and gas to end users (homes and industries) and benefits from higher energy prices. This segment funds the construction of new infrastructure projects.

Reasons to be bullish on Keyera

The one reason to be bullish on Keyera is the Key Access Pipeline System (KAPS) that will run from northwest of Grande Prairie to Fort Saskatchewan, Alberta. The $900 million pipeline is expected to come online in the first quarter of 2023.

The completion of KAPS will create a new cash flow stream for Keyera and help it grow dividends. Moreover, the pipeline project will set the stage for future investment opportunities for gas processing.

Natural gas is attracting attention as Russia, which catered to 38% of Europe's gas requirement, has stopped its gas supply to Europe. This has created a severe natural gas shortage in Europe. Natural gas is used for heating, cooking, electricity at home, and as fuel for cars and trucks. Many European countries are importing natural gas from other sources and entering into long-term supply agreements to secure gas supply. Some countries have resorted to natural gas rationing to withstand the winter.

The United States emerged as the world's largest exporter of liquefied natural gas (LNG) in the first half, with 64% of exports to the United Kingdom and Europe. The distortion of the global supply chain will keep oil and gas prices high for a few years until a new supply chain is in place.

Is Keyera stock a buy?

The macro environment is bullish for Keyera, and it has a strong balance sheet to withstand any bumps. The company is well-placed with KAPS to tap the natural gas opportunity. The stock price should continue to be highly sensitive to oil and gas prices and move 10-20% up or down. However, the company should continue to pay $1.92 in dividends and probably grow it in 2023.

Keyera's stock is a buy at the current price as you can lock in a 6% dividend yield, which the company will pay in 12 monthly instalments. A $2,000 investment can earn you $10 a month in dividend income.

Investor takeaway

However, do not invest a significant amount in Keyera as it is a highly volatile stock, and a dip in oil and gas prices could adversely affect its earnings. Diversify your money and mitigate the downside risk by also investing in other good dividend stocks like **SmartCentres REIT** and **BCE**.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:KEY (Keyera Corp.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin

4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. cleona
2. pujatayal

Category

1. Energy Stocks
2. Investing

Date
2025/08/13
Date Created
2022/09/15
Author
pujatayal