Should You Buy Liquefied Natural Gas Stocks Right now?

Description

Energy has been the key theme of 2022. This sector has outperformed the rest of the market by a wide margin. The shortage of crude oil and growing exports of liquified natural gas (LNG) have propelled energy stocks to multi-year highs. Investors must now look ahead to see if the energy boom has been saturated or if the stocks have further to run.

Here's a closer look.

Outlook for liquified natural gas

Just like crude oil, natural gas prices have been extremely volatile this year. The price of every one million British thermal units (MMBTU) tripled in the first half of 2022 from US$3.6 to US$9.3. The price has now settled at US$5.8 — roughly the same level as it was in November 2021.

The recent plunge in natural gas prices was unexpected. Experts believed sanctions on Russia, limited supply, and the upcoming winter would push Europe into an energy crisis. However, Europe turned to America, Canada, and Qatar for natural gas exports and nearly depleted its storage capacity.

Europe's natural gas storage facilities are now 94% full, according to data from Gas Infrastructure Europe. That's significantly higher than the bloc's 80% target and higher than the historical average of 87%. Meanwhile, winter has been milder than expected. That's pushed natural gas prices lower.

However, some experts believe that Europe will have to keep buying liquified natural gas throughout 2023 to sustain energy security. That could push prices higher next year.

LNG stocks

Canada's LNG stocks are undervalued, even at the current price of natural gas. **Tourmaline Oil** (TSX:TOU), for instance, trades at just 4.7 times earnings per share. That's despite the fact that the stock price has nearly doubled this year. TOU is up 80% year to date.

The management team has cleverly used most of the excess cash flow this year to pay off debt. Net debt now sits at $565 million — well within the company's target. As a result, management has raised the cap on dividends. Up to 90% of free cash flow can now be paid out to shareholders in the form of special dividends. Put simply, investors can expect a windfall if natural gas prices remain at current levels.

Natural gas infrastructure stocks like **Pembina Pipeline** (TSX:PPL) are similarly attractive. Pembina trades at 9.5 times earnings and offers a 5.7% dividend yield. The company offers pipeline, logistics, gas gathering, and gas processing services. These services are far less exposed to volatile commodity prices and much more exposed to volume.

Put simply, Pembina should see robust earnings as long as the volume of natural gas shipped to Europe remains elevated. Meanwhile, the company is actively securing new liquified natural gas and carbon-capture development opportunities. That makes it one of the few energy companies investing in expansion at this time. I think that's excellent.

Bottom line

Natural gas prices have dipped recently, as Europe has too much in storage, and the winter has been milder than expected. However, natural gas stocks like Pembina Pipeline and Tourmaline Oil are still attractive. These stocks could deliver tremendous dividend growth in the year ahead. I believe this could be a good time to add some exposure to the energy sector.

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Date
2025/06/29
Date Created
2022/11/09
Author
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