Natural gas will have a ‘huge impact’ on the energy transition. Play the trend with these pipeline stocks

By Spencer Kimball
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Investors who want to support the energy transition should consider backing natural gas as a fuel that can “make a really huge impact” by replacing coal, according to a top analyst at asset manager PGIM.

Wind and solar are “growing like gangbusters” but they still face an “Achilles heel” that natural gas can help solve, said Shehriyar Antia, vice president and head of thematic research at PGIM, who recently published a report called “Fueling the Future.”

“Renewables are not easily dispatchable — that’s technical jargon for you can’t turn them on and off easily,” Antia told CNBC in an interview. “Natural gas is very complementary to them, it is highly dispatchable and it is very low cost.”

The U.S. is the largest natural gas exporter in the world, according to the Energy Information Administration. There are investment opportunities in U.S. natural gas producers such as EQT Corp., but the major pipeline companies are a better play for investors who want to avoid the risk associated with volatile commodity prices, Antia said.

Pipelines specialize in the transportation and storage of oil and natural gas, and many of these companies offer dividends as well as the prospect of price appreciation.

“Pipelines offer a very different kind of risk/reward proposition for an investor than, say, a natural gas producer who is very exposed to the volatility of the natural gas price,” Antia said. “The pipeline is much less exposed to the price.”

The analyst pointed to pipeline operators such as Williams Companies and Kinder Morgan, which have gained 21.7% and 12.2% year to date, respectively. Williams Cos. has caught the attention of Wall Street analysts recently, with Argus and Wells Fargo upgrading the company's stock as natural gas demand is expected to rise while coal is phased out and electricity demand increases.

Williams has a dividend yield of 4.5%, while Kinder Morgan's yield is 5.8%.

Natural gas is "starting to resemble oil" as the global market grows for liquefied gas that can be transported across oceans to meet demand, Antia said. He pointed to Cheniere Energy as a way to play the growing LNG market. The stock is up 1.4% in 2024, and it has a dividend yield of 1.0%.

"When it comes to LNG infrastructure, Cheniere is a company that provides the infrastructure necessary to liquefy as well as re-gasifying natural gas," Antia said. "They're a big part of the shipping internationally of natural gas."

Natural gas burns cleaner than other fossil fuels and can make a "huge impact" in the energy transition by displacing coal in top economies like China and India that remain dependent on it as an electricity source, Antia said.

"Fossil fuels are not going to be easily replaced and certainly not soon, so from the perspective of an investor who's looking to accelerate an energy transition and looking to decarbonize our world a little bit, there are real opportunities at the greener end of fossil fuels," Antia told CNBC.