



Canadian Large Cap Energy Stocks Look Cheap

Description

David Kostin, chief U.S. equity strategist at Goldman Sachs has come out with a list of 40 U.S. stocks that he believes offer the most upside potential today. Though a variety of industries are represented in this list, the Energy sector is the hands down leader. A total of 17 companies from the Energy sector are highlighted, with potential returns ranging from 23% to 57%.

With Goldman doing the heavy-lifting on valuation, let's take this collection of U.S. energy names and see how their valuation metrics stack up against a selection of Canadian large-cap energy players. We'll eliminate the service companies that were included in the Goldman list, as well as the pure-play refinery names. This leaves us with 11 energy producing companies for our sample.

Tabled below are the market capitalization, forward P/E ratio, and current P/B multiple for 5 prominent Canadian energy companies. The average for each metric has been included. These Canadian averages can then be compared to the averages of the 11 U.S. producers included in Goldman's list.

| Company Name | Mkt Cap (MM) | Fwd P/E | P/B |
|---|--------------|---------|-----|
| Suncor Energy (TSX:SU) | \$46.1 | 9.8 | 1.2 |
| Imperial Oil (TSX:IMO) | 33.6 | 9.2 | 2.0 |
| Cdn Natural Resources (TSX:CNQ) | 32.0 | 13.6 | 1.3 |
| Husky Energy (TSX:HSE) | 29.2 | 14.5 | 1.6 |
| Cenovus Energy (TSX:CVE) | 22.6 | 14.0 | 2.3 |

| | | | |
|----------------------|---------------|-------------|------------|
| Cdn Group Avg | \$32.7 | 12.2 | 1.7 |
| US Group Avg | \$20.7 | 19.3 | 2.3 |

Source: Capital IQ

As you can see in the bottom two rows, although the selection of Canadian companies carry a bigger market capitalization than the U.S. group, they are markedly cheaper on both valuation metrics presented. On average, this Canadian group trades at a 37% discount to the U.S. forward P/E multiple and a 26% discount to the P/B multiple.

Foolish Takeaway

Canadian valuations have no doubt suffered because of the difficult time these companies are having shipping their product to the U.S. Basically, North American pipelines are jammed. However, longer term, as more infrastructure comes on line to help relieve the current bottlenecks, it's reasonable to think that this sizeable valuation gap should narrow.

While oil and natural gas steal many of the energy related headlines we see, uranium has the potential to be *the* fuel that powers the 21st century. [Click here now](#) for instant access to our **FREE** report titled "**Fuel Your Portfolio With This Energetic Commodity**". We think you'll be surprised just how bright the future is for uranium, just how far these two Canadian names have fallen, AND **how fast** they could rebound. [Click here](#) to access this free report, and hop on for the nuclear ride of your life!

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Fool contributor Iain Butler owns shares in Cenovus Energy. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

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TICKERS GLOBAL

- TSX:CNQ (Canadian Natural Resources Limited)
- TSX:CVE (Cenovus Energy Inc.)
- TSX:IMO (Imperial Oil Limited)
- TSX:SU (Suncor Energy Inc.)

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Date

2025/09/11

Date Created

2013/05/07

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