Which Energy Company Belongs in Your Portfolio?

Description

When building a portfolio of Canadian stocks, it seems almost obligatory to include at least some energy names. But which ones?

Below is a look at three of Canada's largest energy companies to see which one is best for your portfolio.

1. Suncor

Suncor (TSX: SU)(NYSE: SU) is Canada's largest energy company, and makes up a big stake in many Canadian equity funds. Those stakes have performed well: Suncor's shares have returned 35% over the past 12 months. It's easy to see why — strong demand for energy, combined with easing transportation bottlenecks, has boosted prices for Canadian energy.

So are Suncor's shares expensive? Well, the company is valued at nearly $69 billion after including net debt. The net present value of its energy reserves (after tax, 10% discount rate) is about $42 billion. So that means you're paying about $27 billion for the refining and marketing assets, or about 10 times last year's operating income.

It looks like Suncor's shares are not a grand bargain, but they're not overly expensive either. If you believe in Canadian energy, Suncor is still a great way to make that bet.

2. Canadian Natural Resources

There are few companies, if any, that have a better track record than **Canadian Natural Resources** (TSX: CNQ)(NYSE: CNQ). Led by Chairman Murray Edwards, CNRL has consistently kept costs under control and allocated capital very prudently. As a result, the company's shares have returned 19% per year for the past 15 years. In addition, CNRL's shares have performed even better than Suncor's over the past year, returning 45%.

On top of that, the company is still not too expensive. It's valued by the stock market at about $59 billion, while the net present value of its reserves (under the same assumptions as Suncor) is $61 billion. This is a good deal; any company with CNRL's track record should conceivably be trading at a premium.

3. Cenovus Energy

While companies like Suncor and CNRL have been rewarding their shareholders handsomely over the past year, shares of **Cenovus Energy** (TSX: CVE)(NYSE: CVE) have been getting left behind, returning less than 7%. Some operational issues at Foster Creek have been holding back both the company and its share price.

But Cenovus still has some of the best assets in the entire Canadian energy market, and as a result is one of the lowest-cost producers. In 2013, despite the issues at Foster Creek, operating expenses came in at just over $15 per barrel.

And the shares are nice and cheap. The company is valued at nearly $29 billion, but the net present value of just its reserves is $24 billion. So you have to pay $5 billion for refining assets that last year made $1 billion in profit. Not a bad deal.

So what should you do?

At this point, if you're looking to make a bet on Canadian energy, CNRL seems like the best option. It has the best track record, the most reasonable stock price, and is the purest play because it has no upstream assets. But the other two companies still offer great risk-reward trade-offs. It's hard to go wrong.

CATEGORY

1. Investing

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1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:CVE (Cenovus Energy Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:CVE (Cenovus Energy Inc.)
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