



4 Energy Stocks Hitting 52-Week Highs; Can They Keep Going Up?

Description

The **S&P/TSX Capped Energy Index** (TSX: ^SPTTEN) has returned a healthy 12.9% in the last six months. This compares to the **S&P/TSX Composite Index's** (TSX: ^GSPTSE) six-month return of 10.2%. In addition, many of the constituents of the energy index have been hitting 52-week highs. Let's dig deeper and find out whether investors should expect this good performance to continue.

Industry fundamentals strong

In general, the energy space is seeing positive fundamentals and this should continue. Natural gas prices have seen a strong increase in the past year from the mid-\$2.00 range to the mid-\$4.00 range, oil prices are high and stable, and natural gas liquids prices have also been extremely strong.

The natural gas inventory situation is very bullish as inventory levels remain depleted and are at 922 billion cubic feet below the five-year average and 748 billion cubic feet below last year's levels. In the longer term, we still have the emerging liquefied natural gas market, which will be an additional source of demand and price support for natural gas.

Here are four energy stocks hitting 52-week highs.

Enerflex

Enerflex (TSX: [EFX](#)) is an oil field services company and has seen its share price rise over 24% in the last six months. This week, the company announced the acquisition of Axiom Energy Services for \$430 million. The deal is being well-received by the market, with the stock up over 10% yesterday, because it will increase recurring revenue streams and expand the company's global reach. The deal is expected to be immediately accretive to earnings per share, and margins are expected to increase from the current 9% to 12%.

Furthermore, oil service stocks can reasonably be expected to do well because commodity prices are strong, meaning that producers will continue to drill. Given current natural gas inventory levels, I think it would be reasonable to expect that to be a positive catalyst in the next year, especially as winter approaches.

Birchcliff Energy

Birchcliff Energy ([TSX: BIR](#)) has seen its share price rise over 85% in the last six months. The company is heavily weighted toward natural gas production, and is benefiting from both strength in natural gas pricing and increased efficiencies. The stock is still trading at an attractive six times P/CF and is expected to continue achieving strong increases in production that will support share price appreciation. Production increased 22% in the first quarter of 2014; the company continues to drive profitability by reducing both operating costs, which declined by 10% in Q1, and general and administrative costs, which declined by 9% in Q1. Birchcliff expects to achieve a 32% increase in production in 2014.

Bonterra Energy

Bonterra Energy's ([TSX: BNE](#)) share price has increased over 7% in the last six months and has also been hitting 52-week highs. The company is seeing strong production increases, and in fact achieved an 82% increase in production in 2013. Costs are also on the decline, down 24% in 2013. Its production is made up of 65% oil, 28% natural gas, and 5% liquids.

Enerplus Corp

Enerplus ([TSX: ERF](#)) has seen its share price increase 27% over the last six months. The company's natural gas production is expected to rise to 56% of total production. As a result, Enerplus will benefit from what will continue to be a fundamentally strong natural gas market. In the first quarter of 2014, funds from operations increased 22% versus last year.

The future of the energy sector

In 2012, the energy index posted a negative 10% return while in 2013 it posted a 6% return. Year to date, the index has posted a return over 12%. There has been renewed life in the sector this year as evidenced by the performance of the index and by the number of oil and gas stocks hitting 52-week highs. I feel comfortable that this trend will continue because, as mentioned above, the fundamentals of the energy industry have improved in the last year and should continue to improve going forward.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BIR (Birchcliff Energy Ltd.)
2. TSX:BNE (Bonterra Energy Corp)
3. TSX:EFX (Enerflex Ltd.)
4. TSX:ERF (Enerplus)

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