2 Overlooked Energy Companies You'll Want to Watch

Description

Both of these companies are part of the **S&P/TSX 60** (^TX60), yet don't seem to get as many headlines as their peers in the energy sector. As an investor, these are the types of things you should be looking for — companies that are flying under the radar. Are either of them worthy of your investment dollars? Let's take a look.

1. ARC Resources

While seemingly no one has been looking, **ARC Resources** (TSX: ARX) has built itself into one of Canada's top energy companies, with production of over 100,000 barrels of oil equivalent per day spread across Alberta, northeastern BC, southeastern Saskatchewan, and even a little bit in Manitoba.

ARC has had some wonderful success in recent years, thanks to its growth efforts in the Montney formation, which lies in northeastern BC and northwestern Alberta. In just the last five years, total production has shot up from just over 60,000 boe/d to 105,000 boe/d today.

Importantly, ARC has managed to grow its reserves even faster than its production. In each of the last six years, it has had a "reserve replacement ratio" of over 200%. In plain English, for every barrel it gets out of the ground, it finds another two barrels in the ground for future production. As a result, the company has over 15 years' worth of reserves in its portfolio, a very strong number.

The stock has performed well recently, returning 19% per year over the last five years, while the Canadian energy index has returned less than 6%. If ARC continues to perform, future years could be just as rewarding.

2. Enerplus

Shareholders of **Enerplus** (TSX: ERF)(NYSE: ERF) have been on a bumpy ride over the past five years, but more recently have reason to celebrate — the stock has returned 63% over the past 12 months.

Unlike most of its peers, including ARC, Enerplus is focusing heavily on the United States; over 60% of its capital budget for 2014 is earmarked for projects south of the border. These include oil projects in North Dakota and Montana, as well as natural gas projects in Pennsylvania.

The problem with Enerplus is that it pays a high dividend, which last year amounted to $1.08 per share. While this results in a nice yield, currently 4.3%, it makes the company less flexible. Last year, Enerplus made only $0.89 per share in funds flow, and only $0.15 per share in net income. That raises questions about the dividend's sustainability.

It should surprise no one that ARC has grown production at a faster pace. ARC is probably the better option for your portfolio, too.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ERF (Enerplus Corporation)
2. TSX:ARX (ARC Resources Ltd.)
3. TSX:ERF (Enerplus)

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