1 Reasonable Stock to Buy in Canada’s Expensive Energy Sector

Description

The **S&P/TSX Composite Index** (^OSPTX) is currently one of the top performing indices in the world, trailing only India’s BSE Sensex. The TSX has outperformed the **S&P 500** so far this year, with the **S&P/TSX Energy Index** (^SPTTEN) playing a major role in pushing the TSX to its recent record highs. It is also the best-performing sector in the Canadian equity market with a return of more than 23% year-to-date.

However, certain areas of the TSX look a little expensive, particularly its star performer — the energy sector — which comprises roughly one-third of the Canadian stock market.

This is precisely why I am skeptical about diving into the sector. It is always a huge risk for investors to be hyper-bullish on stocks when they trade at record levels.

Higher oil prices

The climbing price of oil is one factor that is pushing the sector. The primary reason for a spike in prices is due to the unrest in Iraq. Oil prices hit a one-year high not too long ago and traders are concerned about the situation in Iraq, as the country is considered one of the world’s most significant markets for oil supply growth.

However, depending on higher oil prices to boost the sector is a risk. If we bank on oil prices to boost dividend yields, what does that do to the economy?

Influence of natural gas prices

Many investors are bullish on the sector because of soaring natural gas prices. A brutal winter increased demand and resulted in natural gas prices soaring significantly higher than they were a year ago. And although this move has resulted in its prices being more influential on the sector, natural gas prices are not likely to go much higher. Instead, they are likely to stabilize from here.

The sector is expensive

Many of the stocks in the energy sector are expensive. **Enbridge** (TSX: ENB)(NYSE: ENB) for example, is trading at around 80 times its trailing earnings and about 26 times its forward earnings. The company recently received conditional approval for its Northern Gateway pipeline project.

If you are trading with a short-term perspective, energy stocks are indeed expensive and now would not be the right time to buy into the market. Having said that, there is one stock that I think is a possible buy if you are determined to enter the energy space right now: **Crescent Point Energy** (TSX: CPG)(NYSE: CPG).

The company has a large land position in Saskatchewan and Alberta, resulting in a comfortable production growth rate of around 8% annually. Crescent Point yields about 6% and the company has kept its dividend stable at about $1.20 per share. Although the dividend rate is not likely to increase anytime soon, the company's production is expected to grow steadily. The stock has pulled back a little and is trading at around $45 so it is an ideal time to buy, as Crescent Point is a good long-term name to hold.

CATEGORY

1. Investing

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3. TSX:ENB (Enbridge Inc.)
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