The Only 2 Energy Stocks You Need to Buy

Description

Investing in energy producers is not easy. Companies in this sector must constantly deal with rising costs, big capital requirements, and volatile energy prices. Some firms are not able to face these challenges, and results can be devastating for shareholders. In fact, if you choose to avoid the sector altogether, you can't really be faulted.

But there are two companies in particular that stand out among the rest, and they would make great additions to any portfolio.

1. Canadian Natural Resources

Over the past 15 years, few companies can boast a better track record than **Canadian Natural Resources Limited** (TSX: CNQ)(NYSE: CNQ). And this shows up in the historical share price performance; over this time period, the shares have returned 17% per year. What is the company's secret?

Quite simply, CNRL does two things very well: keep costs under control, and allocate capital. The first item is very important in Canada's energy sector, where rising production costs have been a constant over the last decade. But the company's smart capital allocation is even more impressive.

To be more specific, CNRL is willing to invest against the cycle. So when energy prices are depressed, that's when the company is spending money. Over the long run, this is a very rewarding strategy – after all, this means the company is spending money when everyone else is not. So assets tend to be much cheaper, as are labour and equipment costs. A perfect example occurred early this year, when CNRL bought over $3 billion worth of natural gas assets when seemingly no one else was buying.

So over the long run, no matter how volatile energy prices are, CNRL will take its time and continue to execute its strategy. And shareholders should eventually come out ahead.

2. Peyto Exploration & Development

As mentioned, few energy companies have a better track record than CNRL over the last 15 years.

Natural gas producer **Peyto Exploration & Development Corp** (TSX: PEY) is one of them. Over this time period, the shares have returned a staggering 95% per year. An investment of $1,000 in 1999 would be worth over $700,000 today.

Oddly enough, Peyto's secret is really no different than CNRL's. The company has proven very adept at keeping costs under control, as well as investing against the cycle. In fact, Peyto's production actually decreased every year from 2006 to 2009, during a time when gas prices were sky high. Capital costs were also very elevated at that time, and Peyto saved itself a lot of money.

But there's something else that makes Peyto special: focus. While other energy companies are developing assets all over the world, Peyto produces only in Alberta's Deep Basin. This helps the company become an expert at what it does, and as a result the company is likely Canada's lowest cost natural gas producer.

Like CNRL, Peyto will continue to face ups and downs. But once again, as long as the company continues to execute on its strategy, shareholders should come out ahead in the long term.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:PEY (Peyto Exploration & Development Corp)

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bensinclair