Why You Should Buy Canadian Natural Resources Ltd. Instead of Penn West Petroleum Ltd.

Description

With oil prices – and stock prices – falling so quickly, the mood among Canadian energy companies is a lot different than it was six months ago. Instead of wondering how good things can get, everyone now seems to be wondering how long the slide will last.

Investors are wondering the same thing. And now that stock prices are so low, are Canada's energy companies undervalued? Well, it depends on which company you're talking about. On that note, below we reveal one energy stock to avoid, and one to buy instead.

1 energy stock to stay away from: Penn West

Falling oil prices haven't been the only problem for **Penn West Petroleum Ltd.** (TSX: PWT)(NYSE: PWE), whose shares are down by over 50% so far this year. In fact, the shares are down by more than 75% since early 2012.

The company's problems have been numerous. The balance sheet is overstretched. Assets have been sold at a discount. The dividend has been slashed. There have been operational mishaps. There was even a $400 million accounting restatement.

And with falling oil prices, the news could get a lot worse. This is because Penn West still has over $2.2 billion in debt, and a $0.14 dividend that is likely not sustainable. In the past, the company has made up the difference by selling off assets – this has generated over $200 million worth of cash this year alone.

But this strategy becomes a lot harder when the market is depressed. So your best bet is to steer clear until the future is a little more certain.

1 energy stock to buy instead: CNRL

If Penn West has shown everyone what not to do, then **Canadian Natural Resources Ltd.** (TSX: CNQ)(NYSE: CNQ) has shown us what to do instead. The company has been extremely disciplined when it comes to spending money. Costs have been kept under control. And assets have been bought at the right times.

A perfect example occurred this year, when CNRL scooped up $3.1 billion worth of natural gas assets, right when no one else was buying. This allowed the company to get a bargain price.

And once again, there is a perfect opportunity to pick up some additional properties. CNRL's balance sheet is relatively clean, with debt less than 30% of market capitalization (compared to 85% for Penn West). And no doubt there are plenty of assets with a red discount sticker attached to them.

Despite these advantages, CNRL's shares are down by over 25% since nearly reaching $50 earlier this year. The company now trades at a meaningful discount to the value of its reserves, which is an absolute bargain for a company with this track record. Best of all, CNRL has shown it can weather – even take advantage of – weak commodity prices in the past. So if you're willing to be patient, this is a company worth buying.

There's another energy company worth buying instead of Penn West. In fact, it's The Motley Fool's top stock pick for 2014. You can read about it in the free report below.

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