1 Major Reason to Avoid Enerplus Corp. and Buy Canadian Tire Corporation Limited Instead

Description

Canada-based oil and natural gas company **Enerplus Corp.** (TSX: ERF)(NYSE: ERF) holds an impressive suite of assets in North America, including a large exposure to U.S. shale gas. Right now, this is a large negative for the company. Oil prices have tumbled recently, with WTI now trading at about $76 per barrel. Depending on the source of information, this is either at or below the cost of U.S. shale production. **Morgan Stanley** has this figure at $77 per barrel, while **Goldman Sachs** estimates each barrel of shale oil costs $75 to produce.

This is going to seriously put a squeeze on companies with U.S. shale exposure. When the selling cost of a good approaches the production cost, we can expect suppliers to idle production, which will in turn rebalance the supply/demand fundamentals of the market. But in the meantime, while the rebalancing is under way, companies can really suffer. For that reason, now is not a good time to buy a stock like Enerplus, because we will likely see more downside in the future.

What is a better option?

Rather than bet on Enerplus, investors should consider **Canadian Tire Corporation Limited** (TSX: CTC.A). Both companies are economically sensitive — Enerplus due to its exposure to oil (an economically sensitive commodity), and Canadian Tire because it is a retail stock that's at the mercy of the consumer. But that is where the similarities end, and right now, the differences between the two companies provide the reason to consider an investment in Canadian Tire over Enerplus. Simply put, while Enerplus is entering a period of potential low growth, Canadian Tire is entering its busiest season.

For Canadian Tire, the winter can be its peak sales season because the company sells the supplies that Canadians need in the winter, from winter tires to snow blowers and toboggans. We saw this in action last year when Canadian Tire posted record results thanks to a colder-than-normal winter that encouraged more purchases of winter goods. While there are no guarantees this winter will follow suit, Canadian Tire has a near-term outlook that is positive, while at the same time its longer-term case is robust.

A Canadian icon

Canadian Tire has cemented itself as a proven performer in Canada's challenging retail market. It seems hard for retailers to establish a foothold in Canada – look at how U.S. retail powerhouses **Target** and **Wal-Mart** have struggled north of the border. Canadian Tire has proven over the years that it can survive and thrive, and even beat out new competition.

The company has been a steady performer, with its shares up 135% over the past 10 years, and the company also pays dividends, offering yet another reason to consider an investment in the Canadian retailer.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ERF (Enerplus Corporation)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:ERF (Enerplus)

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