Worried About the Energy Sector? Reduce Exposure With These 3 Top Stocks

Description

For Canadians, avoiding the energy sector can be difficult since it comprises nearly 22% of the TSX. But with OPEC refusing to cut its current production quota, the growth in U.S shale production, the strong U.S dollar, and slowing global growth, 2015 is shaping up to be a weak year for oil and the energy sector.

As a result, investors should ensure they have a balanced and diversified portfolio going into 2015, and remember there are plenty of excellent opportunities outside the oil and gas sector. In 2014 for example, consumer staples stocks led the TSX with a 36% return, followed by health care, and information technology stocks, with 29% and 28% returns respectively.

With 2015 expected to show similar results, here are three best-in-class, non-energy plays to consider.

1. CGI Group Inc.

Information technology consulting, solutions, and outsourcing firm **CGI Group Inc.** (TSX: GIB.A)(NYSE: GIB) has had a fantastic year. The stock has returned roughly 30%, largely due to the successful integration of its recent Logica acquisition, which has yielded annual cost synergies of $400 million and EPS accretion of 85% since the acquisition closed in 2012, and 88.5% over 2014.

2015 looks to be another strong year for CGI, as the company is in a strong financial and operational position. The company generated a 26% increase in cash from operations in 2014, up to $1.2 billion, and currently has annual free cash flow approaching $1 billion.

With a cash position of $536 million and strong free cash flow, CGI is well positioned to buy back shares, and is also very likely to consider another major acquisition, which could provide a huge boost to earnings, along with further organic growth opportunities. With P/E ratio of 15.8, CGI is trading below the industry average of 18.3. With 14% earnings growth expected in 2015, it seems undervalued.

2. Magna International Inc.

Auto-parts maker **Magna International Inc.** (TSX:MG)(NYSE: MGA) shares have increase 370% over the past five years, and 2015 is looking to be another strong year. Analysts estimate that there are still two to three years left in the current expansion portion of the auto cycle, and the recent slide in oil and gas prices should provide further fuel to this expansion due to the economic stimulus it provides.

With U.S retail auto sales expected to reach a record high of 13.83 million in 2015, and current vehicles on the road having an average age of 11.4 years, rising to 11.7 by 2019, Magna is expected to benefit from strong demand for auto parts over the next few years, which should provide the economic conditions for further EPS growth.

Financially and operationally, Magna is in an excellent position to take advantage of these conditions, with a large free cash flow yield of 6.2% and an exceptional balance sheet with minimal debt. With a low P/E ratio of 12.5, and a projected growth rate of 15%, Magna also appears undervalued compared to its peers, and should therefore benefit not only from EPS growth, but also from an increasing multiple.

3. Potash Corp./Saskatchewan Inc.

Potash Corp./Saskatchewan Inc. (TSX:POT)(NYSE:POT), is a third top non-energy pick. Although Potash Corp. earnings are dependent on volatile fertilizer prices, conditions in 2015 are projected to be solid.

Potash Corp. is anticipating hugely reduced capital expenditures in 2015-2016, as several mine expansions, including its Picadilly and Rocanville projects, are completed. Capital expenditures of $1.6 billion in 2013 are expected to drop near sustaining capex levels of $750 million annually, which should allow Potash Corp. to expand its already $1.4 billion of free cash flow.

In addition, the recent flood of Uralkali's Solikamsk-2 mine, and the closure of **Mosaic's** (NYSE: MOS) Carlsbad potash mine due to aging facilities could remove over 3 million tons of potash capacity from the market. With most of Potash Corp.'s competitors operating at near 100% capacity, this gives Potash Corp. room to increase volumes, and may also lead to higher pricing, both of which will boost earnings in 2015.

CATEGORY

1. Dividend Stocks
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1. NYSE:GIB (CGI Group Inc.)
2. NYSE:MGA (Magna International Inc.)
3. TSX:GIB.A (CGI)
4. TSX:MG (Magna International Inc.)

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Author
amancini