Buying Energy Stocks: It's All About Timing

Description

The price of crude has taken over headlines globally. WTI crude is currently priced at roughly $48.70, falling well below the psychological level of $50.

There are two key questions on everyone's mind – how low will crude go? And how long will crude stay low?

But no one knows the answer to these questions and I'm not even going to try and make a prediction. One thing to keep in mind is that OPEC continues to stand by its decision to leave its oil production unchanged until its next meeting on June 5, 2015. The United Arab Emirates' energy minister said in December they do not plan to change their minds about production even if prices went to $40, since they expect the market to stabilize eventually. He also said OPEC will need to wait for at least another quarter to consider an urgent session meeting.

On the other hand, Western oil producers refuse to budge either on oil production. Hence, I don't expect prices to stabilize anytime soon.

While this is bad for oil producing companies, it is great for consumers, and for bargain-hunting investors looking to buy energy stocks at a cheap price. Oil stocks are currently at extremely attractive prices, but I don't suggest investors buy into the sector just yet. There is still a lot of risk in the market with extreme price volatility. While energy stocks are down 10% one day, they are up 6% the next. I reckon waiting until oil finds some sort of floor and this price war is over. Until then, companies will continue to slash capital expenditure budgets and dividends left, right, and centre.

Investing in the sector right now is all about timing. And once that time comes, consider buying only the heavyweights. These will be the blue-chip companies with strong balance sheets. They will be the safest companies that are most likely to weather the storm. Some names investors should consider once entering the space are **Suncor Energy Inc.**, **Crescent Point Energy Corp**, and **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ).

Suncor has a strong balance sheet with low debt. The company also has diversified sources of revenue and is vertically integrated. Thus, it is not as vulnerable to oil prices as other companies.

Besides being an oil producer, Suncor also refines and sells oil. So even if oil falls, it’s retail and refining margins go up.

Crescent Point is also a great Canadian name to own and has been a darling to investors for years. The company recently slashed capital spending expenditure by 28% but refuses to cut its sacred divided.

And finally, Canadian Natural Resources has a strong balance sheet too and has one of the strongest growth potentials in the sector. The company expects its average production for 2015 to be 11% higher than in 2014. Additionally, over the next five years, the company’s production is also expected to grow annually at about 9%.

CATEGORY

1. Energy Stocks
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TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:VRN (Veren)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:SU (Suncor Energy Inc.)
6. TSX:VRN (Veren Inc.)

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