Are There Any Bargains in Canada's Energy Sector?

Description

Since late June, the price of oil has fallen from US$108 per barrel to just over US$50 (as of this writing), a decline of more than 50%. And this is despite a more recent rally.

Obviously the share prices of oil companies have declined as well – the Canadian energy index is down by roughly 30% since June 30. But some stocks have been hit harder than others. On that note, below we profile three companies whose stock prices have remained strong, and three that have been crushed. We also take a look and see if there are any bargains.

3 that have held up well

Since June 30, **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO), **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), and **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ) are down by 10%, 15%, and 20% respectively. No one wants to see this happen to their investments, but these losses are relatively modest. What do these companies have in common?

Well, there are some things that should stand out. Besides being big companies, they all have very stable balance sheets. All three have top-tier assets, and keep a tight lid on costs. All in all, they're the ones most capable of withstanding a sustained oil price slump. So it should surprise no one that their share prices have held up relatively well.

3 that have gotten crushed

Over this same time period, **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), **Pacific Rubiales Energy Corp.** (TSX:PRE), and **Lightstream Resources Ltd.** (TSX:LTS) are all down by more than 70%.

Once again, these three have a lot in common. Most notably, they all have very high debt levels, something you don't want to be stuck with during a slump. Worse still, they all had big dividends, which have become increasingly difficult to fund during this environment. Penn West and Lightstream have already slashed their payouts, and Pacific Rubiales surely will follow.

Again, to no one's surprise, these three companies are in desperate need of an oil recovery. If it doesn't come, then shareholders could see their stake become worthless.

So which should investors go for?

This is what makes stock picking so difficult. The most appealing companies, the ones that can really withstand an oil price slump, are also the ones trading closest to full price. And if you want a stock that's heavily discounted, you have to buy a company that's in financial trouble. So what should you do?

Personally, I would stay on the sidelines. I would never buy any company from the second list — the risk is too great. And I wouldn't go for one of the stronger companies either. Their stock prices are still too high, and reflect some general optimism that prices will bounce back.

If you're looking for a heavily discounted stock, and a great turnaround story, the free report below reveals a much better option than any oil company.

CATEGORY

1. Energy Stocks
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TICKERS GLOBAL

1. TSX:CNQ (Canadian Natural Resources Limited)
2. TSX:FEC (Frontera Energy Corporation)
3. TSX:IMO (Imperial Oil Limited)
4. TSX:SU (Suncor Energy Inc.)

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