



How Cheap Are Canada's Top Oil Stocks? Part 1

Description

When investing, it often pays to go against the crowd. In other words, you want to be fearful when others are greedy, and greedy when others are fearful.

This brings me to Canada's energy patch, which is currently suffering from very low oil prices. Investors have been running for the exits over the past few months, so does that mean now is the time to jump in?

To answer this question, we take a look at just how low these stock prices have gotten. Is there an opportunity here?

Canadian Natural Resources Limited

Just to get some context here, 2015 has not been a great year for oil. From the beginning of the year until January 28th, its price fell by 18%. Then came news of reduced drilling activity, sending prices up 22% by February 17th.

Overall, oil prices have fallen by 19% in 2015. How does that compare with **Canadian Natural Resources Limited's** ([TSX:CNQ](#))([NYSE:CNQ](#)) stock price?

Well, CNRL shares started the year down by as much as 11%—not a good result for shareholders, but still a smaller drop than the oil price. Then as oil prices recovered, the stock price rocketed up by 24%! Since then, as oil prices have dropped once again, CNRL's stock price has fallen by 8%.

Do you notice a pattern here? Every time oil prices fall, CNRL shares fall by less. When oil gains, CNRL shares increase even more. As a result, the company's stock price has actually increased this year! Does this sound like a "fearful" market? More importantly, are we seeing the same thing with other stocks?

Canadian Oil Sands Ltd.

This year has been an absolute disaster for **Canadian Oil Sands Ltd.** (TSX:COS). The low oil price

has put significant pressure on its balance sheet, leading some to speculate that debt covenants will be breached. The dividend has been slashed twice. However, its stock price is down by only 15%, less than the fall in the oil price.

How has this happened? Well, right when the oil price was recovering, there were rumours that Canadian Oil Sands would be bought out. As a result, its stock price roughly doubled.

Meanwhile, Canadian Oil Sands is projecting negative free cash flow this year, even with an average oil price of US\$55. If oil prices stay level for a while, or go down, the stock could be worth zero. So, the market clearly isn't as fearful as it should be.

Imperial Oil Limited

Imperial Oil Limited ([TSX:IMO](#))(NYSE:IMO) is one of the safest stocks in the oil patch. It has shareholder-friendly management, a strong balance sheet, and a big marketing business, which helps to protect the company from low oil prices.

However, Imperial's shares are down just 6% since the start of 2015, but over the past 12 months, its shares have done even better than CNRL's.

When Mr. Market gets fearful, he tends to offer us bargains. Unfortunately, he's not very scared of oil stocks right now, even though he should be. You should look elsewhere.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:IMO (Imperial Oil Limited)

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