Why You Should Buy American Oil Stocks Instead of Canadian Oil Stocks

Description

There's a common saying when it comes to investing: be fearful when others are greedy, and be greedy when others are fearful. A lot of investors are applying that philosophy to buying Canadian oil stocks.

There's a big problem with this strategy. Investors don't really seem to be that fearful, and that's showing up in these stock prices.

"Record Valuations"

According to a new report by Bloomberg, "Canadian energy companies are trading at record valuations, signalling their shares haven't caught up to the reality of crude oil's continued decline."

To be more specific, our two biggest oil producers are each trading at more than 65 times expected earnings. This is an all-time high and more than twice the value of their American counterparts. As one analyst put it, "the group, in general, is reflecting oil prices closer to $60. The longer oil stays at these levels, there is downside risk." I couldn't agree more.

A couple of examples

If you don't believe this report, just take a look at **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), a favourite among energy and dividend investors. At nearly $30 per share, it trades at more than a 20% premium to the value of its reserves, even assuming a robust oil recovery. It also trades at more than 45 times last year's free cash flow, even though oil prices will be lower this year.

Or take a look at **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO), another favourite among energy investors. At roughly $50 per share, IMO is trading higher than it was at the end of 2013. At that time, the oil price was nearly US$100 per barrel.

So, what should energy investors do?

Clearly the energy sector in Canada is trading at a high valuation. Fortunately, there's an alternative: buy American oil producers.

Let's take a look at an example: **Occidental Petroleum Corporation** (NYSE:OXY). Like Crescent Point and Imperial Oil, it has some very appealing characteristics. It has a solid balance sheet, its dividend has been raised for 12 straight years, and it is spending money very wisely in this environment.

There's one big difference between Occidental and its Canadian counterparts: price. Just look at what's happened this year. Crescent Point is up by nearly 9%, while **Suncor** is down by about 3%. Meanwhile, Occidental shares have fallen by close to 10%.

This kind of disparity isn't justified at all. Rather, it only shows the difference between American and Canadian investors. Americans are hitting the *sell* button, and switching into more attractive sectors. Meanwhile, Canadians are betting on an oil rebound.

So, if you want some bargains in the energy sector, you know where to look.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:OXY (Occidental Petroleum Corporation)
2. NYSE:VRN (Veren)
3. NYSEMKT:IMO (Imperial Oil Limited)
4. TSX:IMO (Imperial Oil Limited)
5. TSX:VRN (Veren Inc.)

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