



Why 1 of Canada's Top Portfolio Managers Doesn't Own Any Big Oil Stocks

Description

In an interview with *The Business News Network*, Eric Nuttall of **Sprott Asset Management** explained why he's avoiding Canada's big oil companies. And these days, Mr. Nuttall is worth paying attention to. Both his funds (which include an energy fund and a small cap fund) are number one in their category year-to-date, something he made sure to mention during his interview.

On that note, we take a look at his reasoning below.

Discounting \$95 oil

In the past 12 months oil prices in the United States have declined by more than 40%, despite a nice rebound in April. Yet the stock prices of Canada's biggest oil companies have held relatively steady.

For example, Canada's largest energy company, **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) has seen its shares decline only 7%. **Canadian Natural Resources Ltd.'s** ([TSX:CNQ](#))([NYSE:CNQ](#)) shareholders have done nearly as well; its shares are down just 10%.

For this reason it's hard not to think the companies are overvalued. In fact, according to an RBC report cited by Mr. Nuttall, both Suncor and CNRL are discounting US\$95 oil. In other words, unless oil prices surge back above US\$90, these companies are overvalued. The same thing could be said for many of Canada's other big oil companies—it's no wonder none of them are in Mr. Nuttall's portfolio.

More value in the service companies

With oil prices dropping so low, energy companies are cutting back on drilling. This is hammering the energy service companies—as Mr. Nuttall put it, business “sucks” for them right now. But that's allowed him to buy some stocks for “pennies on the dollar.”

Better yet, service companies typically lead coming out of a downturn. Put more simply, their stock prices should rebound quickly if and when the oil price recovers (assuming history repeats itself). Mr. Nuttall also believes these companies will be well positioned by next year, assuming US\$70 oil.

One example is **Trinidad Drilling Ltd.**, whose stock has declined by more than 50% in the last year, despite increasing 25% in the last month. Trinidad has a solid balance sheet, great management, and good equipment, so Mr. Nuttall thinks the company is particularly well positioned.

Still not many opportunities

Despite these opportunities, Mr. Nuttall still holds over 60% of his fund in cash. So, if you're looking for lots of great investment ideas, the energy sector probably shouldn't be your first choice.

But things change very quickly in energy, and should continue to do so. New opportunities may thus appear very quickly. So, you should still follow the energy sector, because you never know when the next great opportunity will pop up.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

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

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Date

2025/09/10

Date Created

2015/05/08

Author

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