Want to Bet on Oil? Sell Canadian Natural Resources Ltd. and Buy This Company

Description

Over the past year oil prices have fallen from US$103 per barrel all the way down to US$60. Of course, this has hit Canada's energy patch very hard, although different companies have been affected in different ways.

The worst-affected companies are those with heavy debt loads. For example, **Penn West Petroleum Ltd.** is struggling, and **Southern Pacific Resource Corp.** has reached insolvency.

But which producers have seen their stock prices decline the most? Well, it's not always the ones with the bad balance sheet. Instead, it's been the *small* companies whose shares have plummeted the farthest. In other words, a small producer with a strong balance sheet was more likely to see its shares collapse than a large company with a mediocre balance sheet.

This makes some sense. When times are tough, investors seek safety with larger companies. But as a result, it means these big firms are now likely overvalued. So, if you're looking to bet on an energy rebound, your best bet is to find a smaller company with a strong balance sheet. We take a closer look below.

CNRL: still expensive

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ) is one of Canada's most popular oil stocks, and for good reason. The company has a wonderful track record of minimizing costs and spending money wisely. And by doing these things, it emerged from practically nowhere 15 years ago to become one of Canada's largest energy companies.

So, when oil prices started to fall, investors switched from risky oil stocks into CNRL. Consequently, the energy giant's shares have only fallen by 14% in the last 12 months.

And it's not as if CNRL's balance sheet is perfect. Its debt load has increased from $9 billion to $14 billion, and now stands at about 1.7 times cash flow. Put another way, this debt equals about a third of CNRL's market value. This isn't a huge number, but it's not insignificant either.

BlackPearl: a better bargain

BlackPearl Resources Ltd. (TSX:PXX) isn't as well known as CNRL, with a market value of just under $400 million. Yet you're better off holding this company's shares.

Just look at the past year: BlackPearl shares have declined by more than 50%. And this isn't because the company is heavily indebted. In fact, at this time last year, the company had no debt at all. Even now, the company's debt load is just 0.94 times its cash flow, and only 20% of the company's market value (even though this market value has been hit especially hard over the past year).

So, BlackPearl has not only a severely depressed share price, it also has a clean balance sheet. Thus, if you're looking to bet on an oil recovery, it's clearly a better bet than CNRL.

CATEGORY

1. Energy Stocks
2. Investing

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2. TSX:CNQ (Canadian Natural Resources Limited)

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Date
2025/07/21
Date Created
2015/06/04
Author
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