Forget Suncor Energy Inc. and Bet on Oil With This Stock Instead

Description

The WTI oil price is once again well below US$50 per barrel, which is not good news for Canada's oil producers. But there's a silver lining: according to Olivier Jakob, managing director at Petromatrix, U.S. producers generally need US$45 oil in order to remain profitable.

Thus, there's a strong argument that oil prices have reached a bottom. Does that mean you should go buy **Suncor Energy Inc.** (TSX:SU)(NYSE:SU)?

The strongest player

Suncor is, without a doubt, one of the strongest players in Canada's energy patch, if not the strongest. The company has become very disciplined at controlling costs, something that began well before oil prices collapsed. Its balance sheet is rock solid. Its ownership of refineries and gas stations helps to smooth out earnings. And it has an excellent management team.

Tellingly, Suncor actually *raised* its dividend while reporting second-quarter results, a remarkable achievement in this oil price environment. In fact, this announcement came just one day before **Cenovus Energy Inc.** cut its dividend by 40%.

Clearly, Suncor is one of the safest ways to bet on oil prices. Does that make it a wise option?

An expensive price

No matter which way you look at it, Suncor trades at a premium. To start, its shares trade at nearly 40 times earnings. They also trade at over 65 times free cash flow.

Making matters worse, both net earnings and free cash flow will face significant downward pressure, even if oil prices simply stay constant. Remember, WTI averaged more than US$95 per barrel in the third quarter of last year. So, when Suncor reports Q3 results for 2015, it's unlikely to match that quarter's net income of $919 million.

Put another way, Suncor's stock price is the same as it was in mid-March 2014. Back then, WTI was around US$100 per barrel, and Suncor's trailing earnings totaled $3.9 billion. Now those numbers are $46 and $1.4 billion, respectively.

Why are Suncor's shares so expensive? Well, most Canadian equity money managers are required to hold at least some energy stocks. And they typically like to hold stable companies. Consequently, there's been a lot of switching into Suncor as these managers have sold weaker energy stocks.

Of course, the rest of us don't have to hold any energy names at all. That's the good news. But if you're looking to bet on oil prices, what should you do?

The best way to bet on oil prices: Canadian Western Bank

Like Suncor, **Canadian Western Bank** (TSX:CWB) is a well-managed company with an excellent track record. Notably, the company escaped the economic crisis (when WTI sunk below US$40 per barrel) practically unscathed.

Yet investors are scared by low oil prices and what they mean for the Albertan economy. And since CWB technically isn't an energy company, professional money managers haven't been switching into the name. As a result, CWB shares have declined by 40% in the last year, and they currently trade for less than eight times earnings.

This is a golden opportunity and a much better bet than Suncor.

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