Oil Stocks Hit Decade Lows: What Should You Be Buying?

Description

Following dramatic declines due to rapidly falling oil prices, Canadian oil and gas companies felt even more weakness last week in the wake of a turbulent stock market. Some otherwise stable oil and gas companies hit levels not seen in 15 years.

While some investors are terrified, there are many reasons to stay calm in today's market conditions. If you hold companies exposed to the energy sector, now is a better time than ever to review your portfolio and make sure your stocks are well positioned.

Here are a two ideas to bolster your portfolio's potential.

A former $30 billion company is 75% off

Encana Corporation (TSX:ECA)(NYSE:ECA) shares dipped to their lowest level since the company was created through a merger in 2002. This is largely due to a big disconnect between the company's vast asset portfolio and its weak cash flow generation.

Last year, Encana made a $7.1 billion all-cash acquisition of **Athlon Energy Inc.**, leaving it short on funds in a time of extreme turmoil. Depressed oil prices have exacerbated the situation, creating an extreme contraction in cash flow. Still, there is reason to believe that Encana is undervalued.

On a price-to-book basis, the stock is trading at only 0.7 times book value. Only a year ago it traded at 3.5 times book value. Clearly, investors are less enamored with the company's ability to generate profits from its assets. Still, even if the company returned to its five-year average, the stock would have over 100% upside.

Plus, there's reason to believe the company can outlast the current crisis. It still has over $500 million in cash and a debt-to-assets ratio of only 30%, not too far off its historical average. The company also recently proved the value of its assets, selling its Haynesville natural gas property for $850 million.

With plenty of liquidity options available and a rock-bottom valuation, Encana remains a good bet for long-term investors.

Another behemoth at a massive discount

With oil and natural gas interests across Alberta, British Columbia and Saskatchewan, **Enerplus Corp.** (TSX:ERF)(NYSE:ERF) has also felt the pain from falling commodity prices. Down 70% in the past 12 months alone, the company is making some prudent moves to ensure its long-term longevity.

The company has not been shy in selling non-core assets and cutting its once promising dividend, bold moves that many short-term investors disliked. For buy-and-hold investors, however, there's reason to believe management is positioning the company well.

In 2014 the company experienced over $200 million in savings by divesting non-core assets. It's on track to meet that level of savings by divesting additional assets this year. Enerplus can then redirect the proceeds to acquire and develop land around its more promising projects. This should reduce its cost basis as well as ensure more predictable cash flows.

Perhaps the boldest move has been to cut its dividend. This likely contributed to the stock's massive decline, given most income investors have exited the stock. By reducing its dividend by nearly 50% to $0.05 per share, the stock still yields over 8%. With the financial flexibility to outlast the current crisis, investors could capitalize on an outsized yield at a very rare value.

Are things finally turning around?

Barclays recently raised its 2015 and 2016 average crude price forecasts, citing geopolitical tensions, unplanned production outages, and lower natural gas prices in the United States. It believes Brent crude will reach $60 by the end of this year and $68 by next year.

While the oil market is not out of the woods yet, investing in long-term-oriented companies like Encana and Enerplus gives your portfolio a fighting chance of outlasting current conditions and taking advantage of the recovery ahead.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:ERF (Enerplus Corporation)
2. TSX:ERF (Enerplus)

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