3 Energy Stocks You Can Bet on for a Comeback

Description

Stocks are volatile. Especially commodity-related stocks, whose prices are even more unpredictable because they're affected by the prices of the underlying commodities. Check out price charts of any energy company on the Toronto Stock Exchange from the last two years and you'll get what I mean. Who would have guessed the WTI oil price would fall from over US$100 to under $US50?

Some say that this is all part of the cycle. Eventually, oil supplies will lower, and the commodity's price will rise again. However, this could take a few years to play out. Investing is not short-term gambling. If you're buying a stock, you should expect your money to be locked in for at least three to five years.

If you believe that there's a long-term demand for oil, now is a time to dollar-cost average into quality energy companies. Here are three energy stocks that are most likely to survive this turmoil.

A pipeline company with consistent cash flows

TransCanada Corporation (TSX:TRP)(NYSE:TRP) is a pipeline leader that generates cash flow from storing and transporting energy. Its power-generation assets help it diversify from the effects of oil prices.

Compared with its 2014 earnings, its trailing 12-month (TTM) earnings hardly budged. It only decreased by 1.6%. At the same time, its operating cash flow only decreased by 5.4%. So, I don't think the 30% decline from its 52-week high of $63 is warranted.

Thanks to the price decline, investors can pick up its quality shares at a high yield of 4.7%. TransCanada commits to yearly dividend growth. For 14 consecutive years, it has hiked its dividend, and it anticipates to hike it at an annual rate of 8-10% through to 2017.

An integrated oil company with a 3.4% yield

The earnings of **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) have declined by 48% compared with 2014's earnings. Suncor shows its ability to generate strong cash flows in high or low oil price environments, as its operating cash flow has only diminished by 15% when comparing its TTM cash flow with its 2014 cash flow.

Suncor is also a shareholder-friendly company. From 2011-14, it bought back $5.3 billion of shares, cancelling over 7% of outstanding shares. It has also increased dividends for 13 years in a row.

The integrated oil and gas company has a decent S&P credit rating of A-, indicating its balance sheet is strong, while its debt-to-cap of 23% is manageable.

An energy company with the strongest balance sheet

The earnings of **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO) have been cut by almost half compared with 2014's earnings. Its operating cash flow has diminished by over 30%.

Yet its balance sheet remains rock solid with the highest AAA S&P credit rating. Imperial Oil has low debt levels with a debt-to-cap of 19%, and it has generated positive earnings for the past 10 years.

Right now it is priced at $42 near its 52-week low. Imperial Oil is priced at a price-to-book ratio of 1.6, which is the lowest it has been in a decade.

In conclusion

There's no rush to jump into these companies, as the oil price outlook remains negative. However, investors who believe in the long-term demand of oil should consider dollar-cost averaging into these quality names over time. Then wait patiently for the comeback, which may take three to five years to unfold.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSE:TRP (Tc Energy)
3. NYSEMKT:IMO (Imperial Oil Limited)
4. TSX:IMO (Imperial Oil Limited)
5. TSX:SU (Suncor Energy Inc.)
6. TSX:TRP (TC Energy Corporation)

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