



## Bullish on Crude Recovering? Then Don't Invest in Oil Companies

### Description

We all know investors who are guilty of overcomplicating the practice.

I've always looked at investing ideas like this: if the investing thesis isn't obvious after only a little research, it's probably not worth pursuing. Most investors aren't smart enough to gain a whole lot of wisdom from obscure ratios and the footnotes of financial statements. This is why Warren Buffett encourages investors to look for moats. A moat is much easier to identify than trying to value a hidden subsidiary.

But at the same time, there's at least one sector where I'm convinced the obvious play isn't the right one. Many investors have collectively put billions of dollars to work in oil companies, convinced the bargain prices of these producers will be nothing but a memory when crude inevitably recovers.

Those investors are onto something. There are dozens of Canadian oil producers who, at this point, are nothing but levered plays on crude oil. If crude pops 5%, they'll be up 10%.

But at the same time, many of those companies are in dire financial straits. They're wallowing in debt. With debt payments looming and crude so low, they can't afford to invest much of anything towards expansion, which means production will slowly go down. This exacerbates an already big problem.

If crude stays at \$30 per barrel over the majority of 2016, many oil producers will file for bankruptcy protection. We're already seeing this trend start with some U.S.-based operators. Since nobody knows when the price of crude will recover, I think this method is ultimately a bad way for investors to play a recovery in crude.

There's a better way. Investors should focus their attention on solid Alberta-based companies that are still profitable even during these tough times. These companies have virtually no chance of bankruptcy—unlike levered oil producers—and most even pay dividends. Yes, weakness in the energy sector is hurting them, but not nearly as bad as oil producers.

### Which companies?

One such company is **WestJet Airlines Ltd.** (TSX:WJA), which has grown from tiny roots to become Canada's second-largest airline.

Most airlines love a decline in oil, but for WestJet, it's a double-edged sword. The company enjoys lower fuel costs, but since it dominates routes in western Canada that are dependent on the oil sector for business travel, planes are emptier.

Still, there's plenty of evidence that WestJet has positioned itself well for even a prolonged downturn. It has done a nice job growing high-margin revenue from sources like charging for bags and introducing WiFi on flights. It has more than \$1.2 billion worth of cash on its balance sheet. And after making \$2.91 per share in a difficult 2015, things have to get really bad this year for the company to not be profitable.

Plus, investors are getting an attractive 3.7% dividend to wait. That's many multiples better than most fixed-income yields these days, and WestJet comes with considerable upside potential.

Another great company that's temporarily beaten up is **Boardwalk REIT** ([TSX:BEI.UN](#)), one of Canada's largest owners of apartments. The company owns more than 30,000 apartments across Canada with approximately 60% of units located in Alberta.

As goes oil, so will go Calgary's rental market. Friends who live in the city are telling me stories about how landlords everywhere are dropping rents to entice tenants to stick around. It's obvious this trend will hurt Boardwalk.

But at the same time, it'll take more than just that to fatally injure Boardwalk. The company has a great balance sheet with a debt-to-assets ratio of just 38% as of September 30. It also has a payout ratio of just 67% of adjusted funds from operations, which is one of the lowest in the whole sector. This means the 4.8% dividend is in pretty good shape.

Just a few years ago Boardwalk traded at \$70 per share. Perhaps that's aggressive, but book value is \$61.59 per share. If Boardwalk shares only recover to the value of the company's underlying assets, investors are looking at a return of approximately 50%, plus a generous dividend.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)

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## Date

2025/09/12

## Date Created

2016/02/16

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