Which Oil Stocks Do We Want to Buy?

Description

Over the past month, the price for a barrel of oil has steadily declined from above US$50 per barrel to now under US$44, dragging down many of Canada's oil companies along the way.

While investors have seen it all before, it is important to stop and ask if this is an opportunity to buy shares in these beaten-down oil companies, or if it the beginning of a much lengthier downtrend in the industry.

Oil and gas exploration company **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has been hit very hard. With shares declining from a 52-week high of $22 per share to a price between $10 and $11, investors have lost a significant amount of capital. On the upside, the dividend, which has already been cut, is now offering a yield of almost 3.5%.

The challenge faced by this company is the effect the low oil prices will have on day-to-day operations. With a production cost above $45 per barrel, there will be no profit to share with investors without a substantial rebound in the price per barrel of oil.

Instead, investors looking for investments in the oil industry may want to look at shares of pipeline company **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA) or oil technology company **Schlumberger Limited.** (NYSE:SLB).

Both names are lesser known to everyday investors, and these companies have less upside than an oil exploration company (in a rising oil price environment). In spite of this, investors may be significantly better served by holding these names over the long term.

Schlumberger Limited., which provides technology to oil drillers, currently offers investors a 3% dividend yield while selling at a 52-week low. Although existing investors have lost a considerable amount of money by holding these shares, we must not forget that investments are made on a forward-looking basis and not on a backward-looking basis.

Investors looking for exposure to the oil sector have many opportunities without betting on the most volatile securities. By investing in companies that provide services to the oil exploration companies, there is still a significant amount of profit to be made while enjoying higher (and more consistent) dividends along the way.

Pembina Pipeline Corp. is no exception. The company, which operates pipelines to transport oil in the safest way possible, has experienced much lower volatility than traditional oil stocks. The beta is 0.29 and the security offers a dividend yield of approximately 4.75%. Investors can reap the benefits from high dividends in high and low oil price environments, while enjoying a respectable amount of capital appreciation along the way.

While there is a tremendous amount of potential (and risk) for those who choose to invest in oil exploration companies, investors must not forget about the lower risk, lower reward opportunities in the market. While many have lost significant amounts of capital, the dividends continue to roll in for others.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. NYSE:VRN (Veren)
3. TSX:PPL (Pembina Pipeline Corporation)
4. TSX:VRN (Veren Inc.)

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