3 Top Energy Stocks to Buy in 2018

Description

The last year has been a rough year for energy stocks. The **iShares S&P/TSX Capped Energy Index Fund** fell 11% on the year, while the **S&P/TSX Composite Index** overall was up 5%, despite a 15% rally in the price of WTI crude oil over the past year.

It's time to buy energy stocks on the dip, because they are undervalued. I present here three energy stocks that should rebound this year.

Enbridge Inc. (TSX:ENB)(NYSE:ENB)

Enbridge's share price fell by more than 8% in 2017.

The stock looks cheap relative to its peers. It is trading at a P/E of 25.6 and a P/B of 1.7 compared to 31.6 and 2.6, respectively, for the industry's average. Earnings are estimated to grow at a rate of 21.2% for the next year and at a rate of 6.71% per year on average for the next five years.

Enbridge currently pays a quarterly dividend of $0.671 per share, which gives a yield of 4.9% at the current price. The compound annual growth rate (CAGR) of dividends over the last five years is 16.3%, which is very high.

The Calgary-based energy company revealed its financial plan on November 29 and announced that it will increase its dividend by 10% until 2020.

Altagas Ltd. (TSX:ALA)

Altagas's share price fell by more than 9% in 2017.

The Calgary-based oil and gas company's P/E is currently 61.9 versus 31.6 for the industry's average. This is high, but the forward P/E is lower at 29.5, because earnings are expected to grow. Indeed, Altagas's earnings are expected to grow by 16.9% per year on average for the next five years. The PEG ratio over five years is 1.6, which is lower than most companies in the energy sector. Altagas's P/B is only 1.5, while the industry has a P/B of 2.6.

What is also interesting about this gas company, besides its low price, is that it pays a monthly dividend that is increased regularly, making it a good choice for retirees. The five-year CAGR of dividends is 8.75%. The current dividend paid amounts to $0.1825 quarterly, totaling $2.19 per share annually for a yield of 7.3%.

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE)

Cenovus Energy's share price fell by more than 42% in 2017.

Because of this sharp drop in price, the Calgary-based oil company is deeply undervalued. It currently has a P/E of 5.3 and a P/B of 0.9 compared to 16.8 and 1.4, respectively, for its peers. Cenovus has a PEG expected over five years of only 0.27, because its earnings are estimated to grow at a high rate of 70.2% per year on average for the next five years.

So, Cenovus is very cheap relative to the high future growth you should get from it. You should expect some volatility though, as it has a beta of 1.2. It can also take some time before the market recognizes the value of Cenovus and for the price to rise.

Cenovus is an energy stock most suited for investors looking for growth over income. The company pays a quarterly dividend of $0.05 per share, totaling $0.20 per share annually for a yield of 1.5%.

The five-year CAGR of dividends is -26%. The growth rate is negative because Cenovus cut its dividend twice, once in 2015 and once again in 2016. I think it was a prudent decision, because earnings were falling and weren't sufficient to cover the dividends paid. The dividend hasn't been raised since then, but it should be raised eventually has earnings become positive and more than cover the dividends paid.

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Date
2025/07/03
Date Created
2018/01/15
Author
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