

2 Top Canadian Energy Investment Strategies for Beating the TSX Over the Long-term

Description

The Canadian oil sands continue to be one of the most unattractive places for investors these days. Many large firms have sold their stakes over the past few years, and with pundits questioning the sustainability of Alberta's unloved oil patch, does it still make sense for long-term investors to remain in the Canadian energy sector, or will the oil sands remain gloomy for even longer than we think?

Oil prices have climbed higher in recent years, but the discount of Western Canadian Select (WCS) to West Texas Intermediate (WTI) has continued to remain high, thanks in part to transportation bottlenecks that will likely see little relief from crude-by-rail shipments over the next year.

Moreover, carbon taxes and the vast number of uncertainties have been enough to scare away the most opportunistic of contrarian investors, including fellow Canadian investor Kevin O'Leary, who continues to slam Canada's troubled energy sector, implying that it's a ridiculously unattractive place to put capital to work.

These are just some of the issues that have prevented many battered Canadian oil stocks from rallying alongside oil. While I do believe that opportunity exists in some of Canada's higher quality energy names, investors must realize that the underperformance could last a lot longer than we're expecting, especially without promising catalysts in the near future.

Canada's energy sector is no place for quick overnight gains; in fact, investors with such a short-term mindset could stand to lose their shirts as the high level of uncertainties surrounding the industry could make way for further downside.

For those who are still keen on gaining exposure to Canadian energy, here are two strategies to consider:

The strategy first is for "safe" investors who want to play a gradual long-term rebound in Canada's energy sector, getting paid quarterly income while they wait for the industry to enter a slow and steady recovery. **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) is a top stock with strong management and an attractive ~3.3% dividend yield.

When most other energy stocks have slashed their dividends, Suncor has stayed on course, continuing to reward shareholders with generous payouts at a time where the broader industry is facing real hardship.

Even more remarkable, Suncor shares have held their own when many other oil stocks are more than 50% off from all-time highs. The stock is resilient despite being in a turbulent industry thanks to the company's high-quality portfolio of diversified assets, which include refineries and gas stations.

The second strategy would be to track down severely undervalued firms with promising longer-term

catalysts, which could deliver market-beating results in three to five years. This is a riskier strategy, however. Near-term pain can be expected given that such stocks have been falling knives for a reason. Thus, deep-value investors looking for a high-risk/high-reward scenario may be better off with **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)), an [absurdly cheap stock](#) with longer-term tailwinds, which tells me that there may in fact be light at the end of the tunnel for this severely beaten-up firm.

It's no secret that heavy oil operations are expensive to begin with, with many pointing out that they're quite filthy and less economical to run in low oil price environments. Cenovus is at the mercy of oil prices and is less diversified than Suncor; however, that doesn't mean that the Cenovus of tomorrow won't be in better shape to weather the next oil plunge.

Cenovus is at the forefront of innovation in Alberta's oil patch, and its solvent-aided process of extracting oil is poised to make operations more cost-effective with less impact on the environment. These savings are twofold; Cenovus will enjoy direct cost savings while taking less of a "ding" in carbon taxes a few years down the road.

Sure, Cenovus was caught with its pants down during the oil price implosion and made poorly timed moves, but these issues are already baked into shares at these levels. And on a forward-looking basis, I think these shares are a bargain.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks

Date

2025/07/30

Date Created

2018/04/03

Author
joefrenette

default watermark

default watermark