These 3 Energy Stocks Are Ridiculously Cheap

Description

The last year has been tough for energy stocks. **iShares S&P/TSX Capped Energy Index Fund** fell 11% in 2017, despite a 15% rally in the price of WTI crude oil over the past year. Since the beginning of the year, the oil price has risen by 14%, while the energy sector is up by only 3%.

Energy stocks should eventually catch up with rising oil prices, so it's time to buy those stocks on the dip.

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I present here three energy stocks that are undervalued, and that should perform well in the near term.

Encana Corp. (TSX:ECA)(NYSE:ECA)

Encana produces, transports, and markets natural gas, oil, and natural gas liquids.

Encana's shares returned 6.9% in 2017. The stock is down 1.6% since the beginning of the year, but it rose about 10% during the last month.

The stock looks cheap relative to its peers. It is trading at a P/E of 15.2 compared to 55 for the industry's average. Encana's stock is also cheap relative to its earnings growth, with a PEG expected over the next five years of only 0.21. Earnings are estimated to grow at a rate of 81.8% per year on average for the next five years.

Encana currently pays a quarterly dividend of US$0.015 per share, which gives it a yield of 0.46% at the current price.

In 2017, Encana generated net earnings of $827 million, up from a net loss of $944 million in 2016. Cash from operating activities were up 65% to $1.1 billion.

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ)

Canadian Natural Resources is one of the largest Canadian oil and gas producers.

The stock returned about 7.6% in 2017 and is up 3% year to date. It rose almost 20% during the last month.

The Calgary-based oil and gas company's P/E is currently 22.6 versus 55 for the industry's average, so it is cheaper. Canadian Natural Resources is also priced cheaply relative to its growth, with a PEG expected over five years of only 0.65. Earnings are expected to grow by 25.4% per year on average for the next five years.

What is also interesting about this company, besides its low price, is that it pays a quarterly dividend that is increased regularly. The five-year compound annual growth rate of dividends is 21.8%, which is very high. The current dividend paid amounts to $0.335 per share quarterly, which gives a yield of 2.52%.

Canadian Natural Resources had a strong year 2017, passing from an adjusted net loss of $669 million in 2016 to generating net earnings of $1,403 million in 2017.

Advantage Oil & Gas Ltd. (TSX:AAV)(NYSE:AAV)

Advantage is a small Canadian oil and gas company.

Advantage's share price fell by more than 40% in 2017. The stock is down 24% since the beginning of the year, but it rose about 1% during the last month.

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Because of this sharp drop in price, the Calgary-based oil company is deeply undervalued. Advantage currently has a P/E of 8.2 and a P/B of 0.6 compared to 55 and 1.3, respectively, for its peers.

This oil and gas company has a PEG expected over five years of only 0.67. Its earnings are estimated to grow at a high rate of 61.9% per year on average for the next five years.

So, Advantage is cheap relative to the high future growth you should get from it. But it could take some time before the market recognizes the value of this stock and, therefore, for its price to rise.

Advantage is an energy stock most suited for investors looking for growth, because it doesn't pay any dividend.

Advantage earned a net income of $95 million in 2017, while it incurred a loss of $16 million in 2016.

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2. TSX:AAV (Advantage Oil & Gas Ltd.)
3. TSX:CNQ (Canadian Natural Resources Limited)

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