Why it’s Not Easy to Invest in Energy Stocks

Description

It’s not easy for retail investors to invest in energy stocks, because energy stocks typically have above-average volatility and are hard to hold on to. So, it’s not easy to get good long-term returns from them.

Even for a big company such as **Canadian Natural Resource Ltd.** (TSX:CNQ)(NYSE:CNQ), it hasn’t been easy for long-term investors to hold on to the stock. A 10-year investment in the stock returned 2% per year on average.

Yes, you read that right. 2%!

And that was helped by its dividend. Canadian Natural offers a yield of ~2.9% at the recent quotation of $46.50 per share.

What about mid-cap oil and gas producer **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET)? Vermilion stock returned 5.5% per year on average in the past 10 years. That was helped big time by its handsome dividend. Vermilion offers a yield of ~6.3% at the recent quotation of $43.50 per share.

What about natural gas producer **Peyto Exploration & Development Corp.** (TSX:PEY)? Peyto stock has returned -8.8% per year on average in the past five years. In this case, its dividends weren’t enough to turn the investment returns positive.

What about for energy infrastructure company **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA)? Pembina stock has returned 13.1% per year on average in the past 10 years and 8.8% per year in the past five. Its growing share price and dividend growth in between certainly helped. It looks like we might have a winner.

What does this all mean?

Most of the time, buying low and selling high is essential when investing in energy stocks. Of course, there’s also real wisdom in choosing the right stock to invest in.

In the past 10 years, an investor could have traded Canadian Natural stock from troughs to peaks for gains of +130%, +78%, and +50%. The peaks and troughs for Vermilion stock aren’t very definitive in the period. Peyto’s long-term price chart is simply horrible, and it’s unclear when the stock will turn around.

Investor takeaway

Each energy stock must be researched thoroughly to determine if it’ll make a good investment. Out of the four stocks, investors should find Pembina to be the best long-term investment. Pembina has proved itself to grow its cash flow on a per-share basis over the long haul.

Furthermore, at ~$41 per share, Pembina stock offers a nice ~5.3% yield and good value with ~26% upside potential for the next 12 months, according to **Thomson Reuters Corp.** With Pembina’s stable growth profile, it wouldn’t be surprising to see the stock trading north of $60 per share three years down the road.

New investors are better off avoiding most energy stocks, which are volatile and require great market-timing skills to trade in and out of them.

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2. NYSE:PBA (Pembina Pipeline Corporation)
3. NYSE:VET (Vermilion Energy)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:PEY (Peyto Exploration & Development Corp)
6. TSX:PPL (Pembina Pipeline Corporation)
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