Top 4 Canadian Energy Stock Picks From a Portfolio Strategist

Description

Ian de Verteuil is the head portfolio strategist for ?CIBC World Markets, and he has some advice for you.

Last week, the *Globe and Mail* ran a story covering de Verteuil's upgrading of Canadian energy stocks to overweight — an investment term also known as "buy" in other trading lexicons — while downgrading financials to market weight.

Highlighting the chasm between oil prices and energy stocks, de Verteuil also went on to factor the rising interest rate into a caveat to buy stable producers rather than vulnerable pipelines. This certainly makes sense, especially if you are looking at long-term stability.

Which stocks does he fancy?

De Verteuil's big three energy stock recommendations are **Suncor Inc.** (TSX:SU)(NYSE:SU), **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ), and **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET). He also added **Encana Corp.** (TSX:ECA)(NYSE:ECA) as a fourth top energy stock.

Let's go through each of them and see how they compare.

Let's take Suncor as our benchmark and see how the other stocks compare to it. Suncor pays a dividend of 2.74% which is set to rise to 5.51% next year. If this rise materializes, then Suncor does indeed seem like a stock worth having. Back this up with an expected annual growth in earnings of 16.5%, and you have a solid energy stock for your portfolio.

Let's move on. As a stock, Canadian Natural Resources is not dissimilar from Suncor, though with a little more growth potential and slightly better value: Canadian Natural Resources has a better P/E ratio at 19.4 times compared to Suncor's 22.3 times. Their PEGs are fairly similar, with Canadian Natural Resources at 1.3 times and Suncor at 1.4 times, as are their P/Bs, with Canadian Natural Resources at 1.7 times to Suncor's 1.9 times. Canadian Natural Resources pays out 3.05% with little change projected for next year.

With growth of earnings forecast at 14.5% annually, Canadian Natural Resources is a moderate growth stock to consider holding for the long term.

So far, so good. Let's keep crunching numbers

Vermilion pays out 6.05%, so it's the best dividend payer out of this four-horse race. With a high yield and a growth stock to boot, this is the one stock on this list you might wonder why you don't own already. It's looking at a 37.6% expected annual growth in earnings, making this one to buy and hold. If you're interested in a high-yield growth stock, check under the hood for yourself and see what Vermilion's fundamentals look like.

It's easy to see why de Verteuil added Encana to his pick of energy stocks. It's an established dividend payer with a decent track record and moderate growth forecast. It was looking good last month too, when we critiqued top stocks to get while they're good value for money. Its fundamentals look reasonable, though it's not much of a dividend payer at 0.47%. With growth of earnings set to hit 19.8% annually, you do have a decent growth stock here, however.

The bottom line

Some commentators have been recommending energy stocks for a while, but not necessarily at the expense of financials. The takeaway here is that energy is a recession-proof utility rising from market weight to become a decently valued sector. This is good timing, given the current market turbulence, so add a few stocks to your basket if you're light on energy. And while you're at it, maybe consider complementing it with a discounted green energy stock option, just to stay nicely diversified.

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1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:VET (Vermilion Energy)
4. TSX:CNQ (Canadian Natural Resources Limited)
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