Buy These 2 Cheap Energy Stocks to Profit From the Oil Rally

Description

Are you looking for companies that present high growth for a reasonable price? If so, you can find what you are looking for in the Canadian energy sector, which contains many undervalued stocks that have high growth potential.

Canadian energy stocks have been lagging the price of oil, which should remain high amid strong demand and tight supply, but they are slowly catching up.

Husky Energy Inc. (TSX:HSE) and **Encana Corp.** (TSX:ECA)(NYSE:ECA) are two Canadian energy stocks that are cheap relative to their growth and that have strong upside potential.

Husky Energy Inc.

Husky Energy is one of Canada's largest integrated oil and gas companies, with a market capitalization of $20.5 billion.

After dropping 15% in 2014 and 44% in 2015, hurt by declining oil prices, the stock has been on the rise since 2016, but it still has a long way to go before it goes back to the level it was before the plunge. The stock has a 10-year compound annual growth rate of return (CAGR) of -4%, but it has risen 46% over one year.

Husky is producing different types of energy and is diversified geographically. The company has a refining business that offers a hedge to heavy oil discounts. That helped Husky to report a strong rise in its first-quarter profit, despite persistent discounts on Canadian oil.

The Toronto-based energy company earned a profit of $248 million ($0.24 per share) in its first quarter compared with $71 million ($0.06 per share) for the same period last year. Its adjusted profit was $0.24 per share for the quarter compared with $0.07 last year and analysts' forecast of $0.22.

Unlike **Cenovus Energy Inc.**, which reduced its oil sands production temporarily in its first quarter because of low oil prices, Husky has cut production from its oil sands operations because it believes it can make more money by buying “distressed” barrels from other producers.

According to CEO Rob Peabody, Husky’s long-term pipeline capacity and its flexibility to adjust quickly to changing market dynamics is protecting the company from unfavourable market conditions.

Husky has a forward P/E of 14.8 and a five-year P/E-to-growth (PEG) ratio of only 0.5. That means the stock is very cheap regarding the growth the company is expected to have in the next five years. Indeed, earnings are expected to grow at an average annual rate of 34% over the next five years, which is high.

Husky’s stock has risen 15% year to date, but I think it still has strong upside potential and is a good long-term investment.

Encana Corp.

Encana is a producer of natural gas, oil, and natural gas liquids. It has a market capitalization of $16.2 billion.

Like other energy stocks, Encana has been hurt badly by low oil prices. Its stock has plunged 14% in 2014 and 54% in 2015, but it has been rising since then. The stock has a 10-year CAGR of -5%, but it has risen 53% over one year.

In 2013, Encana initiated a five-year plan to boost production, which led the company to focus on high-margin and liquids-rich production.

In its first quarter, the Calgary-based energy company reported an increase in realized prices of all its products, driven by a rise in global prices. Encana’s adjusted income rose to US$156 million in the quarter from US$104 million a year ago. The oil and gas company earned US$0.16 per share, beating a forecast of US$0.14 per share.

Encana has a forward P/E of 15.6 and a five-year PEG ratio of only 0.6, so the stock is very cheap regarding the growth the company is expected to have in the next five years. Indeed, earnings are expected to grow at an average annual rate of 33% over the next five years, which is high.

The stock has risen only 0.4% year to date, but I think Encana has a lot of upside potential, so you should buy the stock before it catches up with the oil rally.

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