Which Canadian Energy Stock Is a Buy? STEP (TSX:STEP) or Enerflex (TSX:EFX)?

Description

Energy stocks are getting a lot of press at the moment and are being held up as the heroes of the Canadian stock market. As long-time favourites with Canadian investors looking to diversify portfolios dominated by financials, domestic energy stocks are a must-have.

To be really solid buys, however, energy stocks have to be both healthy and forward looking. With that in mind, here are two of the very best energy stocks on the TSX in terms of healthy assets and projected income.

STEP Energy Services Ltd. (TSX:STEP)

The first of our two oil and gas equipment and services stocks, STEP is selling for less than half its future cash flow value. Off to a great start, we can now move on to its multiples to get a better picture of STEP's value. STEP has a low P/E of 9.1 times earnings and a matching PEG 0.3 times growth. Its P/B of 1.4 times book is very slightly above the market, but it's good enough value if you're looking for a reason to buy.

The big draws for STEP beyond its good value at present are its expected 36% annual growth in earnings and very low debt of 3.2%.

Enerflex Ltd. (TSX:EFX)

Investors eyeing this stock are aware of its current overvaluation at around twice its future cash flow value. Enerflex is looking good at first glance on its fundamentals, with a satisfactory P/E of 14.7 times earnings, which beats the market, but doesn't quite compare with STEP.

However, a closer look reveals problems with the rest of its multiples. We can see that Enerflex has a low PEG of 0.7 times growth, which is not usually a good sign in a high-growth stock. Indeed, with an expected 21.4% annual growth in earnings, we can see that this is, in fact, the case. A P/B of 1.1 times book is a little over the industry average, making for another black mark against Enerflex's value.

A dividend yield of 2.73% may go some way to make income investors do a double take, however.

How do they shape up?

Both stocks are looking good on growth, with future annual earnings comparing favourably to the low-risk savings rate and the overall TSX growth rate. STEP comes out on top here, though, with that high-yield projection of 36%. Both STEP and Enerflex have healthy yearly revenue growth compared to the market, so if you’re after growth stocks, you can more or less take your pick.

In terms of balance sheets, STEP has a higher level of short-term assets versus short-term liabilities, as well as short-term assets compared to long-term liabilities. Enerflex looks better on debt to equity over the previous five-year period as well as on both debt to cash flow and earnings to interest.

While both stocks have an acceptable level of debt, STEP holds far less than Enerflex (3.2% versus 38.1%). Depending on how much weight you give to each health multiple, you could see STEP as being the healthier stock on debt, or Enerflex as the healthier stock on assets. Overall, they’re about even, however.

In terms of growth, STEP is clearly the front-runner in terms of future earnings. This stock would be the winner if you’re looking for growth picks.

The bottom line

We’ve seen how they shape up in terms of health, with both stocks more or less neck and neck, and STEP taking the lead with regards to growth. Another thing to bear in mind, however, is the real-world application of these stocks. While Enerflex is more diversified in terms of products and geographical markets, investors might want to see STEP as being more streamlined and potentially less vulnerable to global economic volatility.

This streamlined business model combined with good health and rosy growth prospects make STEP the overall winner today.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:EFX (Enerflex Ltd.)
2. TSX:STEP (STEP Energy Services Ltd.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/17
Date Created
2018/07/17
Author
vhetherington