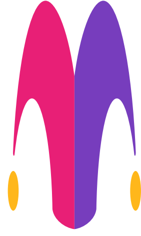

Is This Oil Sands Company an Undervalued Bargain?

Description

The oil sands are among the leading contributors to Canada's economic prosperity. And after a brief setback in the great oil crash of 2014, they appear to be up and kicking again — driving up the value of energy stocks in the process. Yet direct plays in the oil sands are surprisingly rare. A large percentage of oil sands assets are controlled by American companies like **ExxonMobil** and **ConocoPhillips** — diversified firms with many assets all around the world.

default watermark

For investors who want a direct play in the oil sands, there still are some TSX stocks that fit the bill. One of those is **MEG Energy** (TSX:MEG). MEG Energy is an oil sands producer that does exploration in northern Alberta. The company owns a number of proven oil reserves that are located deep beneath the surface of the land, which require special techniques for extraction. The company produces around 76,000 barrels of oil equivalent (BOE) per day.

MEG Energy has seen some impressive gains in the past 12 months, rising from $5.12 per share in July 2017 to $8.37 at the time of this writing. Can the company keep delivering solid returns, or is the stock's recent rise a short-term side effect of the oil recovery?

In this article, I'll take a look at a few things MEG Energy has to recommend it.

Valuation

MEG Energy is bargain-priced by many metrics. One thing that would stick out to any value investor is its single-digit P/E ratio (8.14 at the time of this writing). The company also has a very low price-to-book ratio of 0.60 and a price-to-sales ratio of 0.95.

These numbers would tend to indicate that MEG Energy is undervalued. However, it's important to note that the company has a rocky earnings history, with negative net income figures in 2016, 2015, and 2014.

Improving financial picture

MEG Energy's financial performance improved considerably in 2017, leading to its first year of positive

net income since 2014. Stronger earnings in 2017 were attributed to lower costs and higher oil prices compared to 2016. A statement on the company's website says the growth is thanks to an increase in bitumen realization. In other words, the company is increasing its production output.

At the same time, the company's financial performance does have some weak spots. Its profit margin (11.75%) and return on equity (7.72%) are both comparatively low. These figures are not uncommon for speculative assets in areas like oil and mineral exploration, but they do raise questions about the company's ability to generate shareholder value in the long term.

Overall, MEG Energy is a company whose fortunes are tied to the oil sands. Because its sales figures depend on the price of oil, its financial performance is largely tied to the performance of that commodity. That's not to say that MEG Energy is simply a proxy for oil as a whole. The company has done a good job of reducing its costs and monetizing its reserves by selling electricity to Alberta's power grid. These innovations could mean good things for the company if management plays its cards right.

CATEGORY

1. Energy Stocks
2. Investing

PARTNER-FEEDS

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

default watermark

Category

1. Energy Stocks
2. Investing

Date
2025/08/18
Date Created
2018/08/01
Author
andrewbutton

default watermark