I Can’t Stop Thinking About Buying This Cheap Canadian Oil Stock

Description

The Canadian oil patch has been nothing short of depressing for the last several years. The initial drop was bad enough, but I think most of us thought that at some point it would get better. Fast forward five years, and many of these stocks are still languishing in zombie-like fashion, not quite dead but with no real signs of life. But no matter what, I can’t help looking at these extremely cheap stocks and the possibility of massive capital gains if they ever take off once again.

Some of these companies have been on my radar for a while. In fact, many of them, such as **Whitecap Resources** (TSX:WCP), keep drawing me back. It is cheap, trading around its book value and at a forward price to earnings of about 13. I have owned Whitecap at some point several times over the past decade. I remember receiving its 5% dividend when the stock was trading at around $14 before everything fell apart and that dividend got hacked.

At the time, this company seemed excellent and, to tell you the truth, it still seems to be one of the better oil producers of the Canadian oil patch. Whitecap is aiming to grow its production by 6-8% annually, a level that should be attainable given the quality of its assets. Even with the recent decline in its share price, the company has still provided good returns over the course of its operational history.

Whitecap has been continuing to progress well in spite of oil weakness. Its free funds flows increased 162% year over year as of the last earnings report. The company’s compound annual growth rate (CAGR) of many metrics has been quite significant over the past several years, even in the face of decreased commodity prices. The fundamentals have been, and continue to be, strong as the company moves forward.

Even though Whitecap had its dividend slashed over the last couple of years, the company still pays a more manageable 4% monthly dividend. Given the better state of its finances, it looks as if the dividend will not be cut further. The payout is supported by rising oil prices and a comprehensive hedging program that should ensure cash flows that are relatively predictable for a company operating in the commodity business. Its payout ratio decreased by 11% to 77% of free funds flows when compared to the previous year. Whitecap is hoping to raise its dividend once again, increasing it by 16% last year.

Canada’s oil patch has been decimated, and many investors have left after being burned for so many years. But all indications seem to be that there is change on the oily horizon. Prices have moved up considerably over the past few years and investment seems to be starting to return to Canadian oil. The positives news is starting to come in regarding Canadian oil, so the opportunity to invest at low prices may not last for much longer.

While I am still hesitant, the chance to get in before a major move occurs is very tempting. If you want to have a chance to capitalize on an oil resurgence, owning a quality company like Whitecap may be the way to go. In the meantime, collect those dividends while you wait for the pop in the share price to occur.

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krisknutson