Drop This Overvalued Utilities Stock and Buy a Discounted Energy Producer Instead

Description

Energy stocks were not made equal, and the fact that many investors buy and sell both energy providers and natural resource producers more or less interchangeably only muddies the situation. But at the end of the day, they're all in the same business: getting power and heating to homes and businesses.

Meanwhile, aside from the fine lines between who does what in the energy sector, there are big differences between tickers and how they perform. Below you will find two stocks in the same arena, but that operate very differently on the market. The first is a definite sell, while the second is a strong buy. Let's go through the data and see how these two stocks shape up.

Capital Power (TSX:CPX)

This utilities stock looks like it's discounted if you go by its future cash flow value. However, with a P/E of 52.2 times earnings, it's overvalued and not worth the investment. A large one-year past loss of earnings of 74.6% is even worse than the industry average of -7.1% for the same period, while a poor past-year ROE of just 3% and debt of 70.1% of net worth mark this out as a poor-quality stock.

Stocks that underperform their industries had better have a good trick up their sleeve, such as high growth or a stable dividend: this stock has neither. Though it has an expected earnings increase of 14.3% projected and a +6% dividend, the former is not significantly high, and the latter is not well covered by earnings.

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ)

Now let's look at this nicely valued stock that would make a decent alternative to Capital Power. A market cap of $45 billion kicks off the proceedings, showing that Canadian Natural Resources has gotit where it counts. A P/E of 17.2 times earnings and discount of 11% indicates decent valuation, while a one-year past earnings growth of 69.9% shows that this ticker can outperform its industry (with an average of -1.4% for the same period), plus its own five-year contraction by 11.5%.

While a dividend yield of 3.61% is lower than Capital Power, it's more stable — this is something to bear in mind if you are looking for stocks to buy for a TFSA or RRSP, since they should be as low maintenance as possible. However, one thing to look out for is that Canadian Natural Resources has had significant price volatility in the last three months. While this should not be too much of a concern, it does mean that you should time your trading carefully with this stock.

The bottom line

Though they're slightly different industries, the energy sector is a many-headed beast; you'll find that the interconnections between energy suppliers and natural resource suppliers can lead investors in one industry or the other into somewhat of a grey area. At the end of the day, the stressors on supply and demand are largely the same, and ticker performance generally takes precedence.

To use the case at hand, Canadian Natural Resources is the superior stock here and would make a good substitute for the other.

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1. Energy Stocks
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TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:CPX (Capital Power Corporation)

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