Contrarian Investors: Bet on These 2 Cheap Oil Stocks

Description

If you want to find deals in stocks, check out the Canadian oil sector. There are some fantastic deals at the moment, and those deals keep getting better all the time. While on the one hand, the fact that oil stocks keep getting progressively cheaper is extremely depressing, it is also true that at these low levels the reward for holding these stocks is hugely skewed towards the upside.

In fact, these stocks are in the exact opposite situation, which was facing tech stocks until recently. For technology, the reward for holding those stocks, due to their high valuations, was largely pointing to a big move to the downside. It took a while, but eventually, that event occurred. Due to their low valuations, energy stocks in Canada are positioned for a massively positive move. We just don't know when it will happen.

Two stocks that might have huge upside if there is a reversal in sentiment are **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) and **Akita Drilling** (TSX:AKT.A)(TSX:AKT.B), which are both at rock-bottom prices. These two companies are a good place to start if you want to take a wild swing at the energy market. On a price-to-book basis, CPG is trading at a staggering 0.3 times book value, and Akita is not bad either at 0.6 times book. These stocks are significantly undervalued.

With CPG, everything is heading in the right direction. This is a much better company than it was a few years ago, as was highlighted in the recent Q3 report. Its financials are getting better all the time, with fund flows from operations increasing 12% and net income of $0.06 a share as opposed to negative net income a year earlier. Most importantly, CPG is tackling its debt, reducing it significantly over the course of the year.

Akita's financials were not quite as positive in Q3, but it does have some merits. Its revenues did increase over the same period of the previous year by 28% primarily due to higher revenue per day. Fund flows from operations were down a significant 140%, although much of the decrease was attributed to the cost of acquisitions and relocating rigs to the United States. These are one-time costs, meaning there might be a significant stock bounce if earnings come around in the upcoming quarter.

While their dividends have been anything but stable, they do have great dividends should they continue to pay out while you wait for a turnaround. Currently, CPG is sporting a dividend of over 7% and Akita has one of just over 5%. I would not buy these stocks for the dividend, but if you luck out, the next wave of investment may come soon enough to keep these dividends safe.

Keep in mind, though, that even with all the positives mentioned here, this is still a risky bet. Companies operating in the oil sector, and commodities in general, are highly volatile, making any investment speculative in nature. Investors should also consider the unstable nature of most dividends of commodity companies, since they can easily be cut if conditions remain challenging. That being said, extreme negativity towards these two companies puts the odds in an investors' favour.

Buying Canadian energy is a major contrarian bet, and there is definitely the possibility that these stocks can remain stagnant, or even move down for years to come. But seriously, if anything changes, oil stocks are going to take off. They are at such a point of significant value that they are coiled springs waiting for the opportunity to take off. If you want to bet on some serious upside and get paid (at least for the time being) while you wait, then these stocks are worth taking a swing at today.

CATEGORY

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