Peak Investment Opportunity With These 3 Stocks

Description

Bright minds made forecasts of economic apocalypse in 2009 after the planet hit peak oil levels (with many books on the subject!). World production reached 82 million barrels per day, but the world did not collapse. Since then, the landscape had changed dramatically. For the "first time in 75 years" the U.S. has become a net oil exporter, according to a *Bloomberg News* report.

A decade later, and Canadian oil companies too are still standing, invoking the French expression: "plus ca change, plus c'est la meme" ("the more things change, the more they stay the same.").

Introducing a king pin

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ), or CNRL for short, is one of Canada's largest oil and natural gas producers, based out of Calgary. *Morningstar* gives CNRL a five-star rating, along with a Dec. 7th estimate stating CNRL is underpriced from fair value by a margin of 25%. The price-to-sales (P/S) ratio is 1.9, roughly 50% below historical levels. Twenty analysts out of 23 give this stock a buy or strong buy. I think this stock fits perfectly into an RRSP account.

Two smaller equities

How about a smaller-sized oil stock in **Encana** (TSX:ECA)(NYSE:ECA)? Encana is five times smaller in market cap compared to CNRL, in part because Encana's stock price has dropped over 40%. That's almost twice the haircut CNRL sustained in recent months. On one hand, Encana has beaten earnings expectations in the last four quarters. Add to this is the fact that the stock now trades at book value, something that would entice deep value investors. On the other hand, Encana has had negative cash flow for several years now, likely precluding the dividend from growing.

And then there is **Freehold Royalties** (TSX:FRU), with the smallest market cap ($1 billion) on this list. Fellow Fool contributor Karen Thomas made a bold prediction last month in stating this is the "Top 2019 Energy Stock Pick."

It is exciting as an investor to see that Freehold is now trading at an all-time low P/S ratio. Mind you, this important valuation metric is still three to four times higher than CNRL. Here's where these two diverge. CNRL is an energy producer, while Freehold focuses on owning energy sector assets and banking on the royalties. Having said that, when I consider P/S alongside many other valuations metrics, I find it easier to put investment dollars to work with CNRL (disclosure: I did buy some CNRL shares several weeks ago). It is hard to ignore Freehold now that the dividend yield has reached 7% through monthly distributions.

These stocks 10 years ago

Investing guru Ray Dalio is known to leave no stone unturned in his market research, going back over 100 years to hone his investing thesis. In this case, one measly decade provides great context. Ten years ago, the air waves were buzzing with “peak oil” talk. CNRL looked remarkably similar, basically trading around current valuation levels. Freehold is at basically the same share price from a decade ago!

All three of these stocks have showed a remarkable rebound. We could be witnessing an incredible opportunity. I don’t think this is a coincidence (recall French expression above), as the energy sector again rolls through this long time frame cycle.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:FRU (Freehold Royalties Ltd.)

PARTNER-FEEDS

1. Msn
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bmacintosh