2 Top TSX Index Oil Stocks to Invest in Now for Better Times

Description

Earlier in the year, the prospect of a possible drop in oil prices seemed every supplier investor's worst nightmare. It also seemed unlikely: bottlenecks abounded from the Strait of Hormuz to Venezuela, while agreements to increase output felt too protracted to be impactful. But now here we are, with oil prices having fallen off a cliff to leave investors deciding whether affected tickers are value opportunities or liabilities.

The following duet of oil stocks are obvious choices for investment ahead of higher oil, which may come at some point next year should global affairs right themselves in a timely manner. An end to Sino-American trade tensions and a potential better-than-expected Brexit could combine with growth markets such as the new wave of electric vehicles and other boons to emerging economies to increase oil demand and drive up prices.

Let's see which two oil superstars of the TSX index you should stack now to beat a possible 2019 black gold rush.

Suncor Energy (TSX:SU)(NYSE:SU)

A positive one-year past earnings growth of 37.4% puts Suncor Energy ahead of some of its competitors, with a five-year average past earnings growth of 4.6% showing a lean half-decade (the industry only clocked in at 11% for the same period). Suncor Energy has shed 7.83% in the last five days, creating a clear value opportunity for those who have been eyeing this superstar oil stock.

In terms of value, Suncor Energy has some tasty stats right now: a P/E of 12 times earnings, PEG of 1.3 times growth, and P/B of 1.3 times book are evidence enough that you're getting a decent bang for your buck. An acceptable level of debt at 36.4% of net worth pairs well with a 15.5% expected annual growth in earnings to make that 3.96% dividend yield a fairly risk-free incentive to buy.

So, Suncor Energy is overvalued by about $10 a share compared to its future cash flow value? Refer back to those market fundamentals as a more immediate snapshot of valuation, and bear in mind that its beta of 1.4 indicates the kind of volatility that suggests future value is subject to change.

Vermilion Energy (TSX:VET)(NYSE:VET)

A one-year past earnings contraction by 186.9% weighing down a five-year average past contraction of earnings of 45.2% is just the start of the stats that make this a poorer choice than Suncor Energy: an unreadable PEG ratio, debt level of 73.8% of net worth, and negative P/E ratio all speak of a stock of lesser quality.

However, more insider buying than selling in the last three months and a massive 97.7% expected annual growth in earnings show that Vermilion Energy is simply a stock of a different stripe. Value-wise, its share price is discounted by 31% compared to its future cash flow value, while a P/B of 1.7 times book shows not-too-dissimilar valuation from Suncor Energy. The biggest difference is a much higher dividend yield of 9.71%.

The bottom line

Back in September, I'd been eyeing a drop in oil prices and looking through which stocks could be affected; the two stocks listed here were among the most heavily oil-weighted Canadian stocks I listed. Now they look like perfect value opportunities to snap up if you want to get ahead of the curve and cash in on higher oil in 2019. Meanwhile, if you're looking to build a recession-proof TSX index portfolio, Suncor Energy and Vermilion Energy are top picks for defensive dividends.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSE:VET (Vermilion Energy)
3. TSX:SU (Suncor Energy Inc.)
4. TSX:VET (Vermilion Energy Inc.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

Date
2025/08/24
Date Created
2018/12/25
Author
vhetherington