



Investors: The Smarter Way to Play Oil's Inevitable Recovery

Description

When oil crashed in 2015, many value investors rushed into the sector, convinced cheap energy producers would soar as oil recovered.

But then something interesting happened. Oil stayed below \$50/barrel for much longer than most pundits anticipated. Some oil producers went bankrupt, while many other heavily indebted companies at least flirted with the idea. It wasn't until well into 2016 that energy investors could breathe a sigh of relief.

I realized there's a smarter way to play a potential energy recovery. Instead of investing in oil stocks, look at solid Alberta-based companies that have been tossed aside in the carnage. These stocks offer similar upside potential while protecting on the downside. After all, they offer real earnings, even if the Alberta economy continues to struggle.

Here are three Alberta-based companies that are trading at extremely low valuations today.

Gamehost

Gamehost ([TSX:GH](#)) is a small-cap casino operator. It owns three casinos in Alberta, with locations in Grande Prairie, Fort McMurray, and Calgary.

The company is highly dependent on the underlying price of oil. It drives economic activity, and one of the first things anyone does when their job might be in jeopardy is cut out extras like a trip to the casino. Gamehost has witnessed its earnings fall from about \$20 million in 2014 to \$16-17 million today.

Earnings over the last 12 months total \$0.72 per share, while the stock trades at \$9.12. That puts shares at a reasonable price-to-earnings ratio of just over 12 times. The valuation is even cheaper on a price-to-free cash flow ratio.

Other things to like about the stock is the big 7.6% yield, the solid balance sheet, and high rates of

insider ownership. Management has also done a nice job maintaining margins during this tough period.

Boardwalk

There are many interesting REIT bargains in Canada today. **Boardwalk REIT** ([TSX:BEI.UN](#)) might top the whole list.

The big reason why value investors should be interested is the large discount to net asset value. Boardwalk's management estimates the portfolio is worth approximately \$63 per share, net of debt and other liabilities. The stock currently trades hands at \$38. That's a big gap.

Recent results were solid, too. Net operating income was up 11% versus the same quarter last year, an improvement caused by both higher rents and increasing occupancy. On a year-over-year basis, occupancy increased from 93.2% to 95.9%.

Approximately 60% of Boardwalk's revenues come from Alberta. Many companies would take the opportunity to diversify away from Wild Rose Country, but Boardwalk is doing the opposite. It's taking advantage of the depressed market and buying up apartments. It's also using lower-priced contractors to build new units.

Canadian Western Bank

When analyzing a bank stock, I like to keep things simple. What's the price-to-book value ratio? What's the price-to-earnings ratio? Then I compare that to peers and start taking a closer look at the cheaper options.

Canadian Western Bank ([TSX:CWB](#)) is much cheaper than its peers. Shares trade at 8.8 times trailing earnings and at approximately 90% of book value. The dividend yield is also above 4%, which doesn't usually happen. All these things are pointing towards one conclusion: Canadian Western Bank is a cheap stock.

The company does have some Alberta exposure. Approximately a third of loans outstanding are located in the province. But none of that money is lent out to oil and gas producers directly. The company has taken steps to expand operations away from Alberta, knowing oil would inevitably tank again. Exposure to the province is manageable.

Meanwhile, CWB has quietly become a dividend-growth superstar. The company has raised its payout each year since 2009, more than doubling the annual dividend from \$0.44 per share to \$1. With a trailing payout ratio of just 36% of earnings, the company can afford to continue hiking the distribution, even during tumultuous times.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)
2. TSX:CWB (Canadian Western Bank)
3. TSX:GH (Gamehost)

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