Will You Buy These Energy Stocks on the Cheap?

Description

Energy stocks are not the type of company that you want to hold for long-term investment because of their volatile nature. The way to make money in energy stocks is to buy them on the cheap and sell them after they appreciate. It's easier said than done, however.

Right now, as the WTI oil price trades at close to its two-year low at US$52 and change per barrel, we find these energy stocks to be bargains.

Cenovus Energy

Cenovus Energy (TSX:CVE)(NYSE:CVE) is an integrated oil and gas producer with about 18% of natural gas production. It estimates to produce about 486 million barrels of oil equivalent per day. It also has a refining capacity of roughly $241 million barrels per day.

Cenovus has an investment-grade S&P credit rating of "BBB." It has been reducing its debt levels steadily from $9.5 billion in Q4 2017 to $8.8 billion in the last reported quarter of Q3 2018.

Transport by rail and new pipeline construction will be beneficial to Cenovus in getting the commodities to the target markets, including the United States. Cenovus has signed agreements to transport up to a quarter of its production by rail. That said, pipelines are still a more efficient way of transportation.

Cenovus is a turnaround story. It had a recent net margin of -3.4%. It also needs to pay off its roughly $8.8 billion of long-term debt. Right now, **Thomson Reuters** has a mean 12-month target of $14.50 per share on Cenovus for near-term upside potential of nearly 34% from $10.85 per share as of writing.

Husky Energy

Husky Energy (TSX:HSE) has been working on acquiring **MEG Energy**, which it believes will enable it to generate more free cash flow. Now is a good time to make acquisitions because energy stocks are cheap. So, even though Husky is paying a premium of 44% (based on the cash offer of $11 per MEG share) from MEG's recent quotation, or a cash flow multiple of about 10.7, it's actually still a decent valuation.

Husky is able to make this acquisition because it has a stronger balance sheet and solid cash flow generation. It has an S&P credit rating of "BBB+" compared to MEG's non-investment grade rating of "BB-."

In the last four reported quarters, Husky generated almost $4.2 billion of operating cash flow. Even after subtracting capital spending, it still had more than $1 billion of free cash flow. In the last reported quarter, it also had $2.9 billion of cash and cash equivalents and almost $5 billion of long-term debt.

Husky had a recent net margin of 8.4%. Currently, Reuters has a mean 12-month target of $20.30 per share on Husky for near-term upside potential of 35% from $15.03 per share as of writing.

Investor takeaway

Energy stocks are for investors with an above-average level of risk tolerance. Between Cenovus and Husky, Husky's balance sheet is a bit stronger. So, Husky would be a better choice for the near term as both stocks have similar near-term upside. If these aren't right for you, consider these Foolish ideas for price appreciation.

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2. Energy Stocks
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Date
2025/08/27
Date Created
2019/01/13
Author
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