New Investors Beware: Is There Danger Lurking in Canadian Energy Stocks?

Description

New to investing in Canadian energy stocks? You may want to check out the data for those big-name companies you were about to stack shares in. While some utilities players on the TSX index can offer tasty dividends in the defensive energy space, some data suggests that a few tickers aren't as good value — or don't offer as much growth — as others.

Parex Resources (TSX:PXT)

On to the oil-weighted stocks, with this nicely valued Canadian ticker heading up the pack. On the face of it, it's a healthy stock with attractive valuation, but is it a buy? A debt-free asset with a high past-year ROE of 33% and low P/E of 5.7, Parex Resources has seen its share price rise by 5.41% over the last five days at the time of writing.

However, the P/B ratio for Parex Resources is a little high at the moment at 1.9, meaning that you would be paying almost double the per-asset price. Additionally, with no dividends on offer and earnings turning negative over the next one to three years, there is no great incentive to buy at the moment.

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

An honourable mention has to go to Vermilion Energy with its very positive outlook. A 115.9% expected annual growth in earnings has to be among the healthiest projected growth for a Canadian energy stock right now — or indeed pretty much any stock on the TSX index, with few exceptions.

Unreadable growth-related multiples leave the valuation down. The share price is discounted by 19% of its future cash flow value, and Vermilion Energy is trading at twice its book value. Its earnings contracted by over 180% in the last 12 months, which makes that outlook all the more remarkable. All told, that wild oscillation in earnings may count out Vermilion Energy as a pick for the strictly risk averse.

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

Trading at over a third of its future cash flow value, the valuation for Suncor Energy is actually around market weight at the moment: a P/E of 14 matches the industry and the market, while a P/B of 1.5 shows decent per-asset valuation. All in all, Suncor Energy is one of the best-valued defensive stocks the TSX index has to offer.

Suncor Energy cleaned up with a year-on-year earnings growth of 37.4%, though growth in earnings is expected to be negative by a few percent over the next one to three years. This negative projected growth may make the attractiveness of a 3.39% dividend yield something of a moot point for passive-income investors who want to see some growth down the road in their investments.

The bottom line

Stick to the heavy hitters if you want to get defensive with your energy stocks: stack shares in solid players such as Suncor Energy and avoid any oil stocks looking at a downturn in earnings growth. Investors coming to the TSX index for the first time should check their appetite for risk as well as the balance sheets for any stock they may be thinking of adding to a dividend portfolio, TFSA, or RRSP.

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