2 Lucrative Investment Strategies for Energy Investors

Description

The majority of investors coming to the TSX index for the first time might well assume that energy stocks are one of the most secure sources of dividends in Canada. While true, passive income isn't the only reason investors buy shares in domestic energy companies.

Some companies don't pay dividends at all, and have rather different financial profiles from their counterparts. These non-dividend paying energy companies are traded for capital gains instead, and rely more on momentum than on value as an indicator of their buyability.

First, let's take a look at a promising Canadian energy stock that does pay dividends.

TORC Oil & Gas (TSX:TOG)

With a below-threshold comparative debt level of 22.1% of net worth, TORC Oil & Gas is one of the healthiest dividend-paying energy stocks on the TSX index. A falling share price (though down 1.28% in the last five days) coupled with a beta of 2.25 and high one-year past earnings growth rate signifies a somewhat volatile stock.

With a P/E of 29.3 times earnings and P/B of 0.7 times book, we have a high-performance stock that's still decently valued in terms of its assets. Reasons to buy include a nice-sized dividend yield of 5.64% matched with a cheery 27.8% expected annual growth in earnings.

Now let's compare the above stats with two of the top Canadian energy stocks that do not pay dividends.

Parex Resources (TSX:PXT)

As close to being a pure-play oil stock as one can find on the TSX index, Parex Resources is heavily weighted by the "black gold," making it a great choice for anyone looking for instant exposure to that sector. The main reason to buy a stock like this is for the upside afforded by rising oil prices. As oil prices are low at the moment, now would be a good time to stack shares in this non-dividend paying all-rounder.

Up 2.92% in the last five days, Parex Resorces saw an impressive one-year past earnings growth of 653.5%, beating its own (already impressive) five-year average past earnings growth of 52% several times over. Debt-free and boasting a past-year ROE of 33%, this stock is attractively valued with a low P/E of 5.8 times earnings and P/B of 1.9 times book.

NuVista Energy (TSX:NVA)

Low multiples (a P/E of 11.8 times earnings matched with a P/B ratio of 0.8 times book) make NuVista Energy one of the best-valued energy tickers on the TSX index. A fairly good balance sheet is characterized by below-threshold comparative debt 38% of net worth. It might be down 1.56% in the last five days, but there does appear to be the upside potential if the share price recovers later this year. A one-year past earnings growth of 9.8%, down from a five-year average rate of 44.5%, shows that there is still life in this stock.

The bottom line

With a 37.7% expected annual growth in earnings, NuVista Energy is the best of the two dividend-free stocks on the list. While it holds a higher level of debt than Parex Resources, NuVista's balance sheet is still in the black, with its own debt level being just below the danger level of 40%. Both non-dividend payers are relatively low risk and offer the chance of capital gains should their share prices rise on higher oil later in the year.

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TICKERS GLOBAL

1. TSX:NVA (NuVista Energy Ltd.)
2. TSX:PXT (PAREX RESOURCES INC)

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Date
2025/08/15
Date Created
2019/02/25
Author
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