Should Low-Risk Investors Buy or Avoid This Canadian Oil Stock?

Description

A Calgary-based crude oil and natural gas producer focused on Western Canada, **TORC Oil & Gas** (TSX:TOG) is looking like good value for money at the moment, with some growth ahead in terms of expected annual earnings. Let's take a look at how its stats are shaping up and decide whether it's a buy for passive-income investors.

Is this a top stock to watch?

The majority of top Canadian oil and gas stocks tend to have several factors in common: they pay a stable dividend, usually higher than the bottom 25% of yields on the TSX index, have slightly too-high P/E ratios offset by lower P/B ratios, and generally have some growth ahead. So, how does TORC Oil & Gas compare?

For investors who like to go by price-to-earnings ratios, TORC Oil & Gas's P/E of 54.2 times earnings may look too high. However, the stock is undervalued in terms of two other metrics. First of all, its P/B ratio, which, at 0.6 times book, is below the market as well as the average Canadian oil and gas stock's P/B of 0.9 times book. Second, the stock is discounted by more than 50% of the future cash flow value, making for intrinsically good value for money.

A dividend yield of 5.93% should be enough to add this stock to a passive-income investor's wish list. However, there are some mixed signals in the rest of the data. For instance, on the cons side, a PEG of 2.6 times growth indicates overvaluation, while a past-year ROE of just 1% indicates a poor-quality stock. However, a decent balance sheet (TORC Oil & Gas carries debt 22.4% of net worth, and it's well covered) and significant expected growth (see a projected 20.8% annual rise in earnings) go some way to balance these factors.

Is this stock suitable for a low-risk investor?

Having gained 3.6% for the day but shed 5.73% overall in the last five days at the time of writing, TORC Oil & Gas is a roller coaster of a stock at the moment. Indeed, its beta of 1.36 relative to the

Canadian oil and gas industry indicates moderate volatility, meaning that the general passive-income energy investor with little appetite for risk may want to look elsewhere.

Down 3.3% over the last five days, **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) is another stock to consider buying on the dip and could be stacked alongside TORC Oil & Gas due to some diversification its infrastructure-based arena of operations, depending on just how bullish one is on the Canadian oil industry at present. Alternatively, an energy stock with a broader mix of sources, such as a combination of natural gas and renewable sources, may be an appropriate pairing.

The bottom line

The casual passive-income investor looking to make money with dividend stocks may want to stick to the big players, especially if long-term security of payments is an issue. However, as an oil-weighted investment, TORC Oil & Gas would suit buyers bullish on the "black gold," while for the moderate risk-averse energy investor, it could be an appropriate investment due to a canny acquisition style and clean balance sheet.

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