New to Energy Investing? Try These 3 Wonderful Oil Stocks

Description

Master investor Warren Buffett once said, “It’s far better to buy a wonderful company at a fair price than a fair company at a wonderful price.” While this may be so, nothing beats buying a wonderful company at a wonderful price. Below are three such stocks in the oil and gas space that just might fit the bill.

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

With an expansive management style that will see new Croatian oil exploration kicking off in the coming months, Vermilion Energy is an oil-weighted stock that tends to be fairly tethered to oil prices. It’s had a good year in terms of earnings, with a boost of 547.7%, and continues to outshine its peers in terms of asset usage. Indeed, its 6% ROA outperformed the industry average of 4.8% over the past year.

But is it wonderfully valued? While its P/E of 16.2 times earnings and P/B of 1.8 times book aren’t bad, they’re not indicative of undervaluation, though a 38% discount against its future cash flow value would suggest that Vermilion Energy is good value for money at the very least. What makes it a wonderful stock, though, is that beefy dividend yield of 8.8%.

Parex Resources (TSX:PXT)

Though its year-on-year returns were negative by 5.8%, Parex Resources still managed to outperform the Canadian oil and gas industry, which returned -12.4% over the same 12 months. A small victory, perhaps, but a significant one in so competitive a space.

In terms of its beta, Parex Resources is just as volatile as Vermilion Energy compared to the industry; it has a better track record, though, with two strong growth metrics: a past-year earnings growth of 121.7% and a five-year average earnings growth of 63.4%

In terms of quality, Parex Resources’s past-year ROE of 33% is superbly high for the TSX index, and matched with a flawless balance sheet, it makes for a lower-risk play in the energy space than many of its competitors. A low P/E of 6.2 times earnings and discounted of more than 50% round out its "wonderful" data.

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

This "obvious" stock is good value for money at the moment and has a lot to recommend it in terms of passive income. But is it still one of the best energy stocks to buy and hold long term?

Paying a dividend yield of 3.89%, and with around a fortnight until it trades ex-dividend, Suncor Energy would be a strong buy for a new portfolio and provides some backbone to a pre-existing portfolio light on Canadian oil and gas assets.

In terms of profitability, Suncor Energy's 5.8% expected annual growth in earnings is low, but at least positive, while its five-year average past earnings growth of 16.9% matches the industry exactly, making Suncor Energy what one might call a defining stock in terms of its sector's overall recent performance.

The bottom line

While Vermilion Energy is one of the better heavily oil-exposed stocks on the TSX index, Suncor Energy remains a heavy slugger in this space and a fairly defensive buy. All told, this trio of stocks is more than suitable for a first-time energy portfolio owner, combining growth, dividends, quality, and attractive valuation.

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