A Top Energy Stock to Buy in July

Description

There are a number of ways to invest in energy. You can investors in producers, midstream or service companies. When there's considerable uncertainty, oil and gas service companies are most vulnerable companies. When the price of oil enters a bear market, producers tend to reduce capital expenditures, which has a big impact on the oil and gas service industry.

In the past quarter, the **TSX Oil & Gas Index** has lost approximately 5% of its value. Over the same period, the Oil & Gas Equipment & Service Industry is down approximately 7%. One of the hardest hit is **North American Construction** (TSX:NOA)(NYSE:NOA), which lost 15.2% of its value.

The recent weakness is a combination of industry pressure and a period of consolidation for the company. Despite the recent downturn, North American Construction is still up 77% over the past year. After its most recent run-up, a little bit of price weakness is healthy for the company's long-term prospects.

Savvy investors also recognize that this is the opportune time to take advantage.

Cheap valuations

At first glance, North American may appear to be expensive, as it's trading at 35 times earnings, far above the industry average of 24 times earnings. However, North America is expected to grow earnings at a torrid pace, as such, it's best to value the company in relation to future expectations.

In 2020, earnings are expected to jump to $1.40 per share, up from the $0.40 achieved in 2018 for a compound annual growth rate of 125% over the next couple of years. As such, the company is trading at a cheap 8.9 times earnings, one of the lowest in the industry and far below industry average of 18.2.

Likewise, its P/E to growth ratio (PEG) is sitting at 0.28, which is also a sign of undervaluation. As per famed value investor Peter Lynch, a PEG under one is a sign that the company's share price isn't keeping up with expected growth rates.

Diversified base of operations

It’s also worth noting that North American Construction is diversifying away from the oil patch. In 2018, approximately 7% of the company’s EBITDA and revenue stemmed from its construction segment. The expectation is that this number will rise, as the company is making strategic acquisitions in the space.

This past fall it acquired Nuna, a civic construction and mining company. The deal is expected to materially add to results in the coming quarters as we head into peak municipal construction season.

The diversified equipment and services company is well positioned to make future acquisitions. Cash flows are underpinned by long-term contracts with some of the largest players in the industry. These include such notable names such as **Suncor** and **Imperial Oil.**

The cost of debt is at an all-time low, and as of the last quarter, it reduced its long-term debt to equity ratio below its long-term goal of two (1.8).

With a growth rate in the triple digits, a strong financial position and trading at cheap valuations, NOA is a dual-threat. Are you a growth or value investor? Now is a great time to add North American Construction to your portf0lio.

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