Contrarian Investors: 2 Oversold Stocks to Consider Right Now

Description

It's been a tough year so far for energy companies. Despite analysts telling investors repeatedly that stocks are undervalued, the news of pipeline delays and low oil prices continues to keep much of these stocks well below net asset value (NAV).

Whereas before it seemed like a sweet deal to buy up these stocks while they were still cheap, now investors aren't so sure. The continued depression of the oil and gas industry has made many wonder if these stocks will only go lower before they go higher. And with a recession in the books, who knows when that could be?

It's true that there are companies out there that should be avoided during this period, but there are definitely some that still belong on your buy list if you're a buy-and-hold investor looking for quality long-term stocks.

Enbridge

If you're one of those investors who has been following the industry lately, you'll already be aware of the latest woes of **Enbridge Inc.** (TSX:ENB)(NYSE:ENB). The company's Line 3 project has been stalled again over environmental concerns by a Minnesota court, sending share down yet again to prices not seen since January, bringing Enbridge into oversold territory.

But investors seem to be looking beyond the company's bottom line, which is incredibly strong. Enbridge is underlined by a series of long-term contracts that set the company up for decades of steady cash flow. It's this cash flow that has allowed the company to put aside the $16 billion it needs for growth projects such as Line 3, along with others that should be online by 2021.

Once all these projects are online, shares should get right back up to at least its NAV share price of$62 per share, which should happen as soon as the oil and gas industry rebounds. In fact, thecompany expects to bring in $4.45 per share in cash flow this year and $5 next year, an implied 13%increase in earnings for the next two years. That's more than enough cash to support a downturn, itsgrowth projects, and even increase the company's 6.42% dividend by 10% over that two-year period.

Encana

Yet another company entering oversold territory recently is **Encana Corp.** (TSX:ECA)(NYSE:ECA), a company that while in the oil and gas industry, isn't in the pipeline business like Enbridge. Encana is a diversified oil and gas business, focusing on the development, exploration, production, and marketing of hydrocarbons in North America.

The reason investors have been nervous about Encana is the company is in debt from a series of acquisitions so that the company can start producing premium fuel — a process that started about five years ago. Since then, the company has been gearing up to get these prime real estate opportunities going, which, once complete will take decades to drill through.

The problem for Encana is that its less-profitable assets are what's supporting this expansion right now, and with a low oil and gas industry, it could take some time to pay off its debts. But that has made the company an efficiency machine, with cost coming down dramatically. For the investor willing to wait it out, that puts its current share price of $6.60 as of writing — a huge discount especially given that management believes its production will be 73-76% more than last year's.

Foolish takeaway

There are a lot of stocks out there hitting oversold territory, but when it comes to finding quality stocks, you can't get much better than Enbridge or Encana. These stocks are entirely different despite both trading within the energy industry, but both have an opportunity to see huge growth once oil and gas prices rebound.

Of course, we can't predict the future here at Motley Fool, but we can give you the knowledge you need to make the right decision. So before buying up all the stock you can, dig around a bit further and see if these two stocks are right for your portfolio needs.

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