Long-Term Investors: 2 Dirt Cheap Energy Companies With Huge Upside

Description

Large energy companies are great for investors with a long-term horizon. The companies with a rich history of profitability and growth, are sure to continue in their success for years to come.

However, due to a variety of circumstances, sometimes the stocks are sold off, creating a cheap buying opportunity for investors with a long-term outlook.

These opportunities are few and far between, and investors should seize the opportunity while it's available, as it could be years before these types of quality stocks are this cheap again.

The two stocks that are large well-respected companies with a history of stellar performance are **Encana Corporation**(TSX:ECA)(NYSE:ECA) and **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO).

Encana

Encana is one of the largest exploration and production companies in North America. It has been refining its portfolio the last few years. Since 2013, the company has divested from assets for total proceeds of $13 billion, with more than 80% of those assets being natural gas.

Second quarter earnings were pretty strong with $336 million in net earnings, about $0.24 a share. Cash flow for the quarter was $877 million or $0.64 per share. Free cash flow (FCF) was $127 million, however the company expects FCF to grow significantly in the second half of 2019.

It also bought back 149 million shares, which was roughly $1.25 billion and about 10% of the shares outstanding. The dividend was also increased by 25%.

Total production for the second half of the year is expected to be around 575,000 barrels of oil equivalent per day (BOEPD). It expects total costs on those barrels to be below $13.00.

Encana has managed to earn extra revenue by diversifying where it's selling its commodities and by its hedging paying off. The company estimates it's made an extra $119 million in the first half of the year, or $1.23 per barrel of oil equivalent (BOE).

The company has also managed to decrease its general and administrative costs per BOE by more than 30% and estimates it's on track to save $175 million this year.

Currently, Encana is extremely cheap. The P/E ratio is less than 4X and the price to book ratio is just 0.58 times earnings. It also pays a dividend that yields around 1.75%.

Imperial Oil

Imperial is Canada's second largest integrated oil company. It has a market cap of more than $25 billion. **Exxon Mobile** owns roughly 70% of Imperial.

Imperial has a 25% ownership of Syncrude one of the largest oil sands operators. However, more than half of production comes from Cold Lake and Kearl**.**

It's also the largest refiner of petroleum products in Canada. Imperial has capacity to refine around 425,000 barrels per day

Imperial's integrated operations help the company to stabilize its cash flows and minimize its exposure to commodities prices.

The stability in its cash flows give Imperial the ability to be confident in its dividend payments. It has a history of over 100 years of consecutive dividend payments, and 24 years of consecutive dividend growth.

Currently, the dividend yields around 2.6%. The company has stated that it's dedicated to continued dividend growth. The company also has an extremely strong balance sheet with long-term debt to equity just 0.2 times earnings.

In addition, it's bought back in excess of 50% of the shares outstanding since 1995. It's clear the company is a cash flow machine, Imperial has done more than $2.5 billion in free cash flow the last 12 months.

Right now, it's especially attractive because of how cheap it is trading, near the bottom of its 52-week range. The P/E ratio is just 8.3 times earnings and the company is trading for slightly more than book value.

Bottom line

Both companies offer investors high-quality assets and top-notch execution. Encana is extremely cheap right at the bottom of its 52-week range and trading for much less than book value. Imperial is slightly more expensive; however, it's still significantly cheap as well.

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Date
2025/08/22
Date Created
2019/08/15
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