



2 Top Stocks to Buy in the Energy Industry Today

Description

The Canadian energy industry has a number of high value investments available to investors due to the issues plaguing the sector over the last few years.

Almost every company in Western Canada with ties to the energy industry from pipelines through the integrated, and especially producers with appealing valuations for long-term investors willing to stick it out and wait for greener pastures.

While there are a number of potential investments you can consider, there are specific companies that will outperform in the short-run, and offer investors the best opportunity going forward.

Not surprisingly, these companies rely less on the underlying price of the commodities, which is why their business outlook is much stronger in the short term.

The two [top energy stocks](#) to consider buying today are **Inter Pipeline Ltd** (TSX:IPL) and **Husky Energy Inc** (TSX:HSE).

Inter Pipeline

Pipelines are always great companies in large part because they insulate a lot of their business to avoid the volatility of commodity prices.

Inter Pipeline is a wonderful company for the simple reason that it's crucial to the Albertan economy.

Looking at its business segments by the amount of earnings before interest, taxes, depreciation and amortization (EBITDA) they each bring in, Inter Pipeline's largest division by far is its oil sands transportation business that accounts for 55% of its EBITDA.

Its other three divisions: NGL Processing, conventional oil pipelines, and bulk liquid storage each do 21%, 14%, and 10% of its total EBITDA, respectively.

The company is extremely consistent reporting a return on equity between 14% and 16% each of the last six years.

In addition to its current operations, Inter Pipeline also has \$3.7 billion in active projects today, which represents substantial growth especially for a company with a market cap of less than \$10 billion.

The company is considered a Dividend Aristocrat, as it's increased its dividend by 88% since 2010 or a compounded annual growth rate of 6.5%.

The future is bright for Inter Pipeline, and investors can buy it at a bargain today with a price to earnings ratio of just 15 times and a dividend that's yielding 7.6%.

Husky Energy

Husky is an integrated energy company with midstream and downstream operations to help it mitigate its exposure to commodity prices and operate a more stable business.

It's been investing its capital effectively with the purpose of improving its margins, which is resulting in substantial free cash flow growth.

The growth in its upstream production and downstream throughput coupled with its reduced capital expenditures going forward is why Husky is expecting to generate \$2 billion in free cash flow over the next two years, as long as oil stays above a conservative estimate of \$55 USD WTI.

That's an attractive amount for a company with a market cap of less than \$10 billion and an enterprise value less than \$16 billion.

It's especially attractive when you consider that it still has some quality growth projects in development, and will continue to maintain its sustainable dividend that yields roughly 5.25% and doesn't even pay out half of its net earnings.

The company is valued at an enterprise value to EBITDA of 3.9 times today, so its share can't get much cheaper, making Husky one of the most ideal stocks for investors to gain exposure to if you're looking for an energy investment.

Bottom line

While there are a number of undervalued stocks in the energy industry that long-term investors can own and be happy about, these two stocks offer investors the best opportunities today due to their ultra-cheap valuations and ability to generate long-term wealth for shareholders.

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