Canadians: Energy Stocks Can Still Make You Filthy Rich

Description

Jim Cramer recently slammed oil stocks, referring to them “the new tobacco” and saying they’re currently in some sort of “death knell phase,” just days after West Texas Intermediate (WTI) prices plunged nearly 20% in just a few weeks to US$51 and change on the novel coronavirus (2019-nCoV) outbreak.

As a Canadian investor, Cramer’s comments are nothing short of alarming when you consider how many energy names hold up the **TSX Index**. Many Canadians, knowingly or not, are invested in Canadian energy firms through various passive investments, such as mutual funds or ETFs.

There’s no question that the results in almost every oil stock have been meagre over the past decade, and while it’s easy to throw in the towel on the broader basket of Canadian energy stocks, like many other big-league foreign investors, I think shunning the entire fossil fuel industry, as Cramer seems to have, is a bit of an overreaction.

As a passive Canadian investor, it’s tough to steer clear of the oil patch entirely, and while it’s tempting to buy into the new thesis of Cramer, I think it’d be foolish (that’s a lower-case *f*) to throw in the towel on your Canadian energy plays after an extremely bearish call that was made *after* the fact.

But first, a disclaimer: I am by no means an energy bull. Heck, the recent widening of the price gap between Western Canadian Select (WCS) does not bode well at all for heavy crude producers and could get much worse before it gets any better. So, buying energy stocks and praying for a better commodity environment is not a strategy I’d recommend, even at today’s depressed valuations. You could be waiting years, if not decades, for oil prices to bounce back, and if your thesis relies on higher oil prices, you’re destined for sub-par results until you finally throw in the towel.

Few saw crude prices falling off a cliff in 2014, and likely nobody saw it pulling back this January on the cusp of a devastating pandemic. But that’s the nature of commodities; there are just way too many variables to predict with any degree of accuracy where their prices will be over the intermediate term.

So, instead of trying to predict when (or if) energy prices will recover, it makes sense to look at some of the energy firms that aren't as sensitive to short-term price fluctuations in commodity prices.

Consider **TC Energy** (TSX:TRP)(NYSE:TRP), one of the few Canadian energy firms that are currently sitting at (or around) all-time highs.

Shares of the midstream kingpin have faced dips on industry-wide headwinds, but given the exceptional performance at the company-specific level, and its more geographically-diversified operations (specifically in Latin American markets), TC Energy has been able to buck the trend by bouncing back to rise head and shoulders above its peers.

At the time of writing, TC Energy sports a bountiful 4.2% dividend yield.

The stable dividend is also expected to grow at an 8-10% annualized rate over the next two years, as the company moves forward with promising growth projects, including the controversial Keystone XL pipeline. There are still regulatory hurdles up ahead, but given TC Energy still has stable cash flows from its existing operations, TC Energy is still well positioned to rake in enough to keep its shareholders happy.

At the time of writing, TC Energy is one of the pricier pipeline plays on the market, but it's well worth the premium. The stock trades at 12.6 times EV/EBITDA, 4.8 times sales, and 9.2 times cash flow, all of which are slightly more expensive than that of the historical average.

TC Energy has a favourable risk/reward here, and although there are few places to hide in the realm of Canadian energy, I think Cramer's suggestion of ditching all fossil fuel stocks (including the pipelines) would cause one to throw the baby out with the bathwater.

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Author
joefrenette