



## Buy Energy Stocks Now — But Wait on Commodities

### Description

The terrible events which have continued to unfold relating to the coronavirus outbreak have shocked global financial markets — and for good reason. Significant shutdowns in China in and around the Hubei province have impacted global demand for a range of goods.

Energy and commodities stocks, in particular, have been impacted. In this article, I'm going to discuss why I believe energy stocks represent decent value after this repricing, but I'd wait on commodity producers for a little while.

January Chinese fuel consumption has been estimated to have decreased approximately 20% year over year. This is a truly incredible figure given the size of the country's economy and importance to the global economy.

The important question is this: Is demand shock is likely to continue for a prolonged period, or will it be considered a one-time event?

I am of the belief that this dramatic reduction in near-term demand is indeed a black swan event. I believe this is unlikely to continue for any extended period due to a (hopeful) peaking of coronavirus cases soon, and a settling down of global markets.

### Crescent Point Energy

If such a situation does materialize, the short-term selloff we've seen in companies like **Crescent Point Energy** (TSX:CPG) could provide an excellent entry point right now. For those who wish to make this bet, Crescent Point is indeed an interesting company to consider.

Crescent Point is a Canadian producer with a significant percentage of its production related to non-oil sands, non-WCS oil. It produces this lighter oil for export to global markets, including China.

As WCS is more of a domestic grade of oil used in North America, focusing on companies that produce oil for global markets like Crescent Point is really the best way to play this.

Crescent Point is also an interesting name to consider, ignoring coronavirus altogether based on its fundamentals alone.

Right now, shares of Crescent Point are trading at 2.5-times cash flow, a ridiculously cheap valuation. To put that in perspective, the company could be privatized and pay off its owners in 2.5 years with cash flows from operations only.

Also, most oil companies like Crescent Point were trading at multiples of eight to 12 times cash flow at the height of the bull market in oil, thereby highlighting just how cheap this name is today (down 86% over the past five years alone).

## My take on commodities

Commodities, on the other hand, might be a harder sell for investors right now. For investors looking to time the bottom on this cycle, I would recommend holding off until at least Q2. By then, we will have more insight into how commodities have truly been affected by this virus.

Commodities have been on a downward trajectory for some time now. My take on this sector is that we will continue to see prices decline until a recession or serious economic slowdown rears its ugly head and investors flee to safety.

Stay Foolish, my friends.

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