



These 2 Warren Buffett Quotes Apply Perfectly to These 2 Top Energy Stocks

Description

Warren Buffett has given many investing tidbits of knowledge over the years. And for those of us who have wanted more, he has even written numerous invaluable investing books. Would you like to know which specific stocks Warren Buffett would invest in?

To try to decode this, let's look at two of what I think are Warren Buffett's best quotes and best guiding principles. Let's then attempt to apply them to two top energy stocks that have been beaten down over the last few years.

“We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful”

This guiding principle is a wise and practical one. It ensures that we get bargain prices for our stocks. In other words, buy when others are selling and sell when others are buying. When the general perceptions and expectations go against what we know to be true, we can take advantage of temporary mispricings.

[So, never participate in bubble mentality](#), and look more closely for value when a stock is totally out of favour. Doing so has the potential to capture huge value and gains against the market moves. As Warren Buffett's quote says, buy when there is fear. There is plenty of fear toward energy stocks.

Energy stock **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) is certainly a stock that brings out the fear in most these days. As a result, the stock trades below book value and at a measly three times cash flow. Yes, the oil and gas industry has real issues. Yes, some of those issues are long term in nature. But this top-quality oil and gas company is also unparalleled in its reserve quality, its costs, and its financial strength. While many other oil and gas companies continue to go bankrupt (which reduces production and therefore increases oil and prices), Canadian Natural Resources remains.

Energy stock **Cenovus Energy** ([TSX:CVE](#))([NYSE:CVE](#)) is also seeing record-low demand for its stock, as investors shun this high-quality company. It trades at a small fraction of its book value, and

the popular belief is that it is doomed. But Cenovus is armed with top-quality operations and reserves. It will also remain standing as other competitors go bankrupt.

“The best thing that happens to us is when a great company gets into temporary trouble”

I know what you’re thinking, because I have thought it, too. Isn’t the Canadian energy sector experiencing permanent trouble? Isn’t it experiencing a secular decline?

Well, two things come to mind here. [The first is that the oil and gas sector may be in a slow decline](#), but it will still be needed for many years to come. The second is that the oil and gas sector is also cleaning up its act, literally. This industry is working feverishly at reducing its carbon footprint, because its very survival depends on it.

For its part, Canadian Natural Resources is making long-term plans to cut emissions dramatically over time, and with new technologies, this is possible. Beyond this, Canadian Natural Resources has shown an ability to generate cash flows, even in difficult periods. This should sustain the company until better times come along. This Warren Buffett quote calls for investing in great companies, and Canadian Natural Resources is just that.

As for Cenovus Energy stock, it too can survive the difficulties that plague the oil and gas industry. Before the oil price crash, Cenovus Energy was in a great position. Free cash flow in 2019 was \$1.35 billion. The company’s oil sands operations are low cost and top quartile, and it has exposure to refining operations in the U.S.

Foolish bottom line

Warren Buffett has many simple but effective ideas that guide his investing and stock picking. Here, I applied two of them to two top energy stocks that are greatly out of favour. Canadian Natural Resources stock and Cenovus Energy stock are two quality companies that have been caught in the downdraft of the energy sector. We can use Warren Buffett’s principles to gain comfort investing in these top energy stocks today.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:CVE (Cenovus Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)

4. TSX:CVE (Cenovus Energy Inc.)

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karenjennifer

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