



12 Contrarian investors: Invest \$5000 in These 2 Cheap Oil Stocks

Description

Oil and gas stocks were wealth destroyers for the better part of the last decade. Since 2014, commodity stocks did nothing but go down in price and cut dividends. At the end of 2019, the sector was finally starting to look like it was going to make some progress. Then came the pandemic, and demand for oil and gas collapsed.

The “good” news

Fortunately, one might say, for investors, the opportunity to buy oil stocks cheap has been extended. Similar to the CERB payments, it might extend indefinitely, but that is the situation in which we find ourselves. With no hope left for the sector, you can pick up these stocks and collect a few dividends if the companies still pay them.

The other bit of positive news is the fact that there is far more upside than downside at this point. While this was true for the past half-decade, it still holds true for long-term investors.

If you’ve found a company that you like and the shares are still cheap, you can keep acquiring more shares at a low level. Who knows, at the rate these shares are decreasing you might even end up owning the whole company before too long.

My two favourite companies

Although typing the word *favourite* makes my fingers ache and produces a bit of a bitter taste in my mouth at the moment, I still look favourably on **Whitecap Resources Inc.** ([TSX:WCP](#)) and **Canadian Natural Resources Ltd.** ([TSX:CNQ](#))([NYSE:CNQ](#)) as long-term holds.

I have owned these companies for a very long time. Looking on the bright side, I also had the opportunity to bring down my cost basis substantially in recent years.

Whitecap's [dividend has been](#) a bit flexible as it bounced up and down with oil prices. It rose in the good times, fell in bad, rose again in the average time, then fell again as oil crashed. Even with the instability, though, I had the opportunity to lock in a fair amount of capital gains.

CNQ, on the other hand, is a little [more stable](#). It did not cut its dividend as many other stocks did and still has a good yield. At the moment the dividend amounts to about 6.5%.

Historically, this is a fairly high dividend for the stock, although it did reach the double digits during the March crash. The company also raised its dividend in February 2020. At the moment, CNQ doesn't plan to cut it either.

The case for oil

I don't think there has ever been a more bearish view on oil. The sputtering reopenings indicate that demand could remain low for some time. Renewable energy is becoming more in demand than ever before. Oil investors are so shell-shocked from years of punishment and false starts that they don't want to get back into the sector for fear of being hit again.

These pessimistic factors spell an excellent case for an oil surprise to the upside. Let's face it, most people use oil and gas frequently in vehicles, heating and cooling homes, and for generating power. We still use a lot of plastic to make our decorative phone cases and toys for our kids as well.

These companies are so cheap at this level that it wouldn't take a lot of upside surprise to make them shoot up. Both currently trade below their book values. Their book values are also revised downward, as assets were recently marked to market.

When assets begin to appreciate in value, book value will increase along with it. Earnings will come back in a hurry and share prices will rise along with them. You don't have to look any farther than the gold market to see how fast things can move.

The Foolish takeaway

Gaining exposure to the oil and gas sector by purchasing shares of good companies like CNQ and Whitecap is a great long-term strategy. It might take years, so don't put your life savings into these stocks.

Besides, when these stocks move you won't need much to get outside returns. In the meantime, hold onto the stocks, add more if they fall, and collect your dividends. This is one of those great contrarian moments if you have the patience to wait.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:WCP (Whitecap Resources Inc.)

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1. Business Insider
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