



## 1 Discounted and 1 Undervalued Energy Stock to Buy

### Description

The energy sector bull market is showing no signs of going down, and there is a strong probability that the bullish phase will only gain more momentum. That's primarily due to the sanctions on Russian oil that might come online any time, and WTI crude, which is already north of US\$100 per barrel, *might* rise to even higher levels.

Since it's the oil futures we are talking about, the price has just as much to do (possibly even more) with the speculation and uncertainty in the market than actual supply restraints. Then there are practical issues that can create problems in the demand-supply dynamics.

After the 2020 crash and the pandemic's demand dips, it took months for most energy giants to calibrate their production to match the rapidly rising demand.

That was the actual catalyst that triggered the [energy sector](#) rise in Canada. And the current market uncertainty is sustaining it. And thanks to the financials of many energy companies taking a turn for the better, the valuations are pretty attractive, and it's straightforward to find undervalued stocks. Discounted stocks are rare, but you can still find some.

### One undervalued stock

The average price-to-earnings multiple of the energy sector has gone down quite a bit in the last few quarters, but certain undervalued companies are still easy enough to spot. An example would be **Baytex Energy** ([TSX:BTE](#))(NYSE:BTE), with its price-to-earnings multiple of 2.1. Ironically, there is very little difference between that and the price-to-book value multiple of the stock.

The undervaluation seems even more impressive if you consider how rapidly the stock has grown since Nov. 2020 (1,400%). And the growth pattern is still strong. In 2022, the stock has risen 56% so far (including the recent slight dip), and at its current pace, its growth for the year can quickly go past 110%, more if the WTI crude price shoots up due to enforced sanctions.

One organic reason for the growth of Baytex stock would be that when the world caps off one of the

largest oil producers, the value from existing producers will naturally go up.

## One discounted stock

**Parkland** ([TSX:PKI](#)) has been “off-key” for quite a few years now. For many years preceding the 2020 crash and the pandemic, [the stock](#) was going up at a decent pace, which can be considered relatively rare in the energy sector, especially after 2014-2015. And this contrarian approach continued after the pandemic as well.

The stock is still a long way from its pre-pandemic peak (27% — a hefty enough discount). And it’s also relatively overvalued at a time when most energy stocks are fairly or undervalued. And it’s challenging to identify the cause of this difference from the sector at large.

It’s a major downstream player as one of the largest independent fuel retailers in Canada and has an impressive international presence as well (especially Caribbean). It’s also focusing on renewables from a slightly different angle and is planning to make the largest renewable diesel complex in B.C.

## Foolish takeaway

The energy sector’s bullish phase might continue for a while, but it’s also in a relatively delicate phase. The [bull market](#) has propped many energy companies higher than they have been in years. And even if the growth is supported by healthy financials, public perception and fear regarding the end of the bull run might result in a sharp fall instead of a gentle downward slope. That isn’t easy to plan for.

### CATEGORY

1. Energy Stocks
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1. TSX:BTE (Baytex Energy Corp.)
2. TSX:PKI (Parkland Fuel Corporation)

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