Oil Stocks Are Still Shockingly Cheap

Description

Energy stocks have been rallying hard this year.

Thanks to the dramatic rise in oil prices we've witnessed in 2022, many oil and gas investors have gotten wealthy.

It's gotten to the point where many investors think that the trade is overheated. Energy stocks are behaving almost like tech stocks at the height of the 2020/2021 bubble. 50% in half a year certainly looks extreme. And in fact, the gains in *oil prices* may be behind us. The supply chain crisis probably won't last forever, and the U.S. still has more oil in the strategic petroleum reserve it could release.

However, the rally in oil *stocks* possibly isn't over. Although oil prices are beginning to cool off, the companies that extract oil remain dirt cheap. So, it's quite likely that they will rally on strong earnings even if oil just trades flat. If this prediction comes true, then oil stocks will eventually prove to have been some of the best stocks in 2022's bear market.

Current oil prices not priced in

The big thing you need to know about oil stocks today is that their prices aren't even reflecting *current* oil prices. The last time oil was as high as it is now was all the way back in 2014. In those days, oil stocks were far more expensive than they are now. In fact, some oil stocks still haven't reached their 2018 prices — in that year oil topped out at $77!

Take **Suncor Energy** (TSX:SU)(NYSE:SU), for example. Its 2018 high was $55. Today, it trades for just $49. Yet oil prices this year are about $35 higher than they were in 2018. True, Suncor has faced some operational and production issues. But thanks to the combination of high oil prices and aggressive debt reduction, SU is likely to top its 2018 earnings in 2022. By the end of the year, its stock price should reflect that.

Shockingly low cash flow multiples

Another factor suggesting that oil stocks are still cheap is their cash flow multiples. They are, quite frankly, shockingly low. At today's prices, SU trades at 5.5 times trailing operating cash flow (CFO) and FOUR times forward CFO!

Those are some low multiples. And Suncor isn't the only oil company that's this cheap. If you look at any other oil company, you'll see that their multiples are similarly low. Examples include the following:

- **Occidental Petroleum**
- **Cenovus Energy**
- **Chevron**

All of these companies trade at single-digit cash flow multiples, just like Suncor. So, you can buy even the most boring energy ETF right now and get a barrel's worth of value for every dollar you spend — pun very much intended!

Foolish takeaway

It's easy to think that the oil trade is getting overheated this year. A 50% gain in half a year is pretty extreme, and it usually doesn't continue. But oil prices remain high, and oil stocks remain cheap relative to fundamentals. There is plenty of basis for thinking that they will continue outperforming the market for months to come. Remember that oil stocks got badly beaten down from 2015 to 2020. Very often the recovery from such severe beatdowns is dramatic.

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