



Why One Value Investor Says Not to Buy Suncor Energy Inc. and Canadian Natural Resources Limited

Description

You would have to have been sleeping under a rock if you haven't heard that oil is the cheapest it's been in years! And while oil is cheap, are oil-based stocks cheap too? Yes and no.

Yes, the answer is simple at first glance. Stocks like **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) and **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)) are cheap. Shares of both companies trade at levels close to their 52-week lows.

But are these stocks valuable at these levels? No.

Although share prices of oil-based companies have plummeted over the past year, they haven't fallen as much as the price of oil. Oil has tanked nearly 50% over the last 12 months, but shares of Suncor and Canadian Natural Resources are down roughly 12% and 19% respectively in comparison. When you juxtapose that to the 50% drop in oil prices, a 19% discount does not look appealing.

In fact, one value investor and portfolio manager has completely moved away from oil stocks, given the environment. In an interview with *BNN*, Barry Schwartz, chief investment officer and portfolio manager at Baskin Wealth Management, says he currently has zero weight in energy in his portfolio. That's because oil-based energy stocks have gotten cheaper in price, but are more expensive on valuation and that concerns him. For example, he says Suncor was trading around similar (approximately \$30) levels when oil was about \$90 a barrel a year ago.

Today, oil is around \$43 and Suncor is still in the \$30 range. This makes Suncor more expensive in valuation and begs one to question the amount of money the company is making in this environment.

There's no doubt that Suncor and Canadian Natural Resources are incredible companies with solid managements. Their balance sheets are strong, their dividends are stable, and they are the companies most likely to weather this oil-storm.

However, if investors are looking for value right now, Suncor and Canadian Natural Resources may not be your best bet, given the information above.

Instead, investors should look at other companies and even sectors if they want to find good value for their buck.

Investor options?

For those investors who are still interested in sticking to the energy space, one company that has better valuations is natural gas company **Tourmaline Oil Corp.** ([TSX:TOU](#)). In the past year, while oil has fallen about 50%, Tourmaline is down about 28%. It's not incredible, but it definitely has a smaller price-fall gap than Suncor or Canadian Natural Resources. Tourmaline also has a strong balance sheet and reported promising earnings for the quarter.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:SU (Suncor Energy Inc.)
5. TSX:TOU (Tourmaline Oil Corp.)

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