# **Identifying Undervalued Companies in the Energy Sector**

**BY**

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**Objective**

The objective of this analysis is to identify four (4) undervalued companies in the Energy sector by examining their gross profit (GP) and gross profit growth (GPG) compared to similar companies in the same sector. A valuation model will be developed to project each company’s true value in four years. This analysis will guide our start-up in making data-driven decisions to maintain and run the business effectively over the next four years.

## **Introduction**

A comprehensive analysis was conducted to identify undervalued companies in the energy sector by examining key financial metrics such as gross profit (GP), gross profit growth (GPG), and comparative ratios (P/E, P/B, P/S, Gross Margin, EPS Growth (5Y), ROE, Debt/Equity). The analysis focuses on four companies: **Suncor Energy Inc (SU),** **Murphy Oil Corp (MUR), Profire Energy Inc (PFIE), and California Resources Corp (CRC)**. Additionally, sector peers was included to provide context and comparison.

These companies were chosen based on their financial metrics and growth potential. The companies selected were based on the following criteria:

* **P/E Ratio**: Under 25
* **P/S Ratio:** Under 2
* **P/B Ratio:** Under 3
* **Gross Margin:** Over 30%
* **EPS Growth (next 5 years)**: Positive (>0%)

## **Company Analysis for the selected Undervalued Companies in Energy Sector**

| **Company Name** | **Market Cap** | **P/E** | **P/B** | **P/S** | **Gross Margin** | **EPS Growth (5Y)** | **ROE** | **Debt/EQ** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Suncor** | $49.91B | 8.68 | 1.53 | 1.36 | 44.56% | 13.21% | 18.68% | 0.36 |
| **Murphy** | $6.42B | 11.74 | 1.21 | 1.89 | 33.38% | 13.50% | 10.77% | 0.38 |
| **Profire** | $81.25M | 8.68 | 1.39 | 1.42 | 50.39% | 21.00% | 17.84% | 0.01 |
| **California-Res Cop** | $4.69B | 15.04 | 1.72 | 1.99 | 44.99% | 14.00% | 12.09% | 0.29 |

* **Price to Earning (P/E ) Ratio**

**Definition:** The Price-to-Earnings (P/E) Ratio is a valuation metric that compares a company’s current share price to its earnings per share (EPS). It indicates how much investors are willing to pay per dollar of earnings.

**Formula:** Market Price per Share

Earnings per Share(EPS)

* **Price to Book (P/B) Ratio**

**Definition:** The Price-to-Book (P/B) Ratio compares a company’s market value to its book value. It provides insight into how much investors are paying for the net assets of a company.

**Formula:**

P/B Ratio = Market Price per Share

Book Value per Share​

* **Price to Sales (P/S) Ratio**

**Definition:** The Price-to-Sales (P/S) Ratio compares a company’s stock price to its revenues. It is used to value companies, especially those that are not yet profitable.

**Formula:**

P/S Ratio = Market Capitalization

Total Revenue​

* **Gross Margin**

**Definition:** Gross Margin is the percentage of revenue that exceeds the cost of goods sold (COGS). It indicates how efficiently a company is producing its goods.

**Formula:**

Gross Margin = Gross Profit × 100%

Revenue

* **Earning per Share (EPS) Growth (5Y)**

**Definition:** EPS Growth over 5 years measures the annualized growth rate of a company’s earnings per share over a five-year period. It reflects the company’s profitability trends and future growth potential.

**Formula:**

EPS Growth (5Y) = EPS in Year 5 ⅕ -1

EPS in Year 1

* **Return on Equity (ROE)**

**Definition:** Return on Equity (ROE) measures a company’s profitability by revealing how much profit a company generates with the money shareholders have invested. It indicates how effectively management is using the company’s assets to create profits. **Formula:**

ROE = Net Income ×100%

Shareholder’s Equity

* **Debt/Equity Ratio**

**Definition:** The Debt/Equity Ratio is a measure of a company’s financial leverage, calculated by dividing its total liabilities by shareholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets.

**Formula:**

Debt/Equity Ratio = Total Liabilities

Shareholder’s Equity​

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#### **Gross Profit from 2023 - 2020**

| **Year** | **SUNCOR** | **MURPHY** | **PROFIRE** | **CRC** |
| --- | --- | --- | --- | --- |
| **2023** | 21,924,000 | 1,518,194 | 30,532.0180 | 1,405,000 |
| **2022** | 26,874,000 | 2,379,279 | 21,651.3900 | 1,821,000 |
| **2021** | 17,560,000 | 1,279,536 | 11,401.0180 | 1,355,000 |
| **2020** | 5,073,000 | -8,005 | 9,526.2010 | 1,058,000 |

### *\*There was no gross profit for California Resources Corporation in the 2020, but it was present in 2019*

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### **Gross Profit Growth (GPG)**

GPG = Current Year’s Gross Profit − Previous Year’s Gross Profit × 100

Previous Year’s Gross Profit

1. **2022 to 2023:**

21,924,000−26,874,000 = −4,950,000 × 100 = −18.41%

26,874,000 26,874,000

1. **2021 to 2022:**

26,874,000 − 17,560,000 = 9,314,000 × 100 = 53.56%

17,560,000 17,560,000

1. **2020 to 2021:**

17,560,000 − 5,073,000 = 12,487,000 × 100 = 246.10%

5,073,000 5,073,000

**Average Gross Profit Growth for Suncor Energy Inc**

Average Gross Profit Growth : -18.42 ×53.06 ×246.12 = 93.75%

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The mathematical workings above explains how the Average Gross Profit Growth was generated for each company, and every other data in the dataset were obtained from Finviz and Yahoo Finance.

**Gross Profit Growth (2023 - 2020)**

| **Metric** | **SUNCOR** | **MURPHY** | **PROFIRE** | **CALIFORNIA RESOURCES CORP** | |
| --- | --- | --- | --- | --- | --- |
| GPG 2022 to 2023 (%) | -18.41 | -36.18 | 40.97 | -22.88 |  |
| GPG 2021 to 2022 (%) | 53.56 | 85.94 | 89.83 | 34.47 |  |
| GPG 2020 to 2021 (%) | 246.10 | 15985.54 | 19.69 | 28.10 |  |
| **Average GPG (%)** | **93.75** | **5,345.1** | **50.16** | **13.23** |  |

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## **Comparative Analysis with Sector Peers**

### **Peer Companies Analyzed**

* Civitas Resources Inc (CIVI), USA
* Teekay Tankers Ltd (TNK), Bermuda
* Kosmos Energy Ltd (KOS), USA

## **Comparative Analysis for the selected Peers Companies**

| **Company Name** | **Market Cap** | **P/E** | **P/B** | **P/S** | **Gross Margin** | **ROE** | **Debt/EQ** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Civitas** | $7.28B | 8.85 | 1.10 | 1.75 | 39.22% | 12.91% | 0.67 |
| **Teekay** | $2.17B | 4.48 | 1.30 | 1.60 | 39.60% | 33.68% | 0.04 |
| **Kosmos** | $2.71B | 12.46 | 2.53 | 1.55 | 49.57% | 22.86% | 2.48 |

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#### **Gross Profit from 2023 - 2020 for sector peers**

| **Year** | **CIVITAS($)** | **TEEKAY($)** | **KOSMOS($)** |
| --- | --- | --- | --- |
| **2023** | 1,671,0350 | 572,734 | 866,584 |
| **2022** | 2,485,5480 | 290,652 | 1,344,043 |
| **2021** | 569,3590 | -58,012 | 518,786 |
| **2020** | 69,224 | 251,423 | -20,306 |

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### **Comparative Analysis of Undervalued Company and their peers**

| **Metric** | **SU** | **MUR** | **PFIE** | **CRC** | **CIVI** | **TNK** | **KOS** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **GP (2023)** | 21,924,000 | 1,518,194 | 30,532 | 1,405,000 | 1,671,035 | 572,734 | 866,584 |
| **GP (2022)** | 26,874,000 | 2,379,279 | 21,651 | 1,821,000 | 2,485,548 | 290,652 | 1,344,043 |
| **GP (2021)** | 17,560,000 | 1,279,536 | 11,401 | 1,355,000 | 569,359 | -58,012 | 518,786 |
| **GP (2020)** | 5,073,000 | -8,005 | 9,526 | 1,058,000 | 69,224 | 251,423 | -20,306 |
| **GPG (2022 to 2023) (%)** | -18.41 | -36.18 | 40.97 | -22.88 | -32.78 | 97.16 | -35.51 |
| **GPG (2021 to 2022) (%)** | 53.56 | 85.94 | 89.83 | 34.47 | 336.68 | 601.00 | 159.16 |
| **GPG (2020 to 2021) (%)** | 246.10 | 15985.54 | 19.69 | 28.10 | 722.36 | -123.07 | -2,654.65 |
| **Average GPG (%)** | **93.75** | **5,345.1** | **50.16** | **13.23** | **342.08** | **191.69** | **-843.7** |
| **P/E Ratio** | 8.68 | 11.74 | 8.68 | 15.04 | 8.85 | 4.48 | 12.46 |
| **P/B Ratio** | 1.53 | 1.21 | 1.39 | 1.72 | 1.1 | 1.3 | 2.53 |
| **P/S Ratio** | 1.36 | 1.89 | 1.42 | 1.99 | 1.75 | 1.6 | 1.55 |
| **ROE (%)** | 18.68 | 10.77 | 17.84 | 12.09 | 12.91 | 33.66 | 22.86 |
| **Debt/EQ** | 0.36 | 0.38 | 0.01 | 0.29 | 0.67 | 0.04 | 2.48 |

*MUR - Murphy Oil Corp.*

*PFIE - Profire Energy Inc.*

*CRC- California Resources Corporation*

*CIVI - Civitas Resources Ltd.*

*TNK - Teekay Tankers Ltd.*

*KOS - Kosmos Energy Ltd.*

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### **Compound Annual Growth Rate(CAGR)**

Is appropriate for long-term projections,as it smooths out the growth over multiple periods

**CAGR** = GPfinal - 1

GPinitial

Where:

* + GP final - GP final​ is the gross profit in the most recent year.
  + GP initial - GP initial​ is the gross profit in the base year.
  + is the number of years.

### **CAGRSU = 21,924,000 ⅓ - 1 = 73.11%**

**5,073,000**

### **CAGRMUR = 1,518,194 ⅓ - 1 = 8.84%**

**1,279,536**

**Projected Gross Profit**

The projected GP formula is used to estimate the future gross profit (GP) of a company based on its current GP and the compound annual growth rate (CAGR). The formula is as follows:

Projected GPyear​=Current GP×(1+CAGR)n

Where:

* Current GP is the gross profit in the most recent year (2023 in this case).
* CAGRis the compound annual growth rate, expressed as a decimal.
* n is the number of years into the future for the projection (4 years in this case).

**Steps:**

1. Convert the CAGR percentage into a decimal by dividing by 100.
2. Add 1 to the CAGR decimal.
3. Raise the result to the power of n (number of years into the future).
4. Multiply the current GP by the result to get the projected GP.

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### **Adjusted Future Gross Profit (GP) Calculation:**

The adjusted future GP takes into account the variability and possible adjustments in the growth rate to provide a more conservative or realistic future projection. This can involve using a different growth rate based on market conditions or internal strategic changes.

For simplicity, and assumption, a slightly adjusted CAGR is used to factor in potential market fluctuations. 70% of the original CAGR is applied for this purpose:

#### **Adjusted Projection for Suncor Energy Inc (SU):**

1. Adjusted CAGR: 0.7311×0.70=0.511770.7311 x 0.70 = 0.51177
2. Add 1 to the adjusted CAGR: 1+0.51177=1.511771
3. Raise to the power of 4 (for 4 years): 1.511774≈5.189
4. Multiply by the current GP: 21,924,000×5.189≈113,734,036

So, the Adjusted projected GP for Suncor Energy Inc in 2027 is approximately 113,734,036.

**Projected Gross Profit(GP) FOR Undervalued Company and their Peers:**

**The table includes the projected GP for 2027, both with the original CAGR and the adjusted CAGR.**

| **Company** | **Current GP (2023)** | **CAGR** | **Projected GP (2027)** | **Adjusted CAGR** | **Adjusted Projected GP (2027)** |
| --- | --- | --- | --- | --- | --- |
| Suncor Energy Inc | 21,924,000 | 73.11% | 191,794,000 | 51.18% | 113,734,036 |
| Murphy Oil Corp | 1,518,194 | 8.84% | 2,108,893 | 6.19% | 1,926,086 |
| Profire Energy Inc | 30,532.02 | 44.13% | 127,448.75 | 30.89% | 87,778.96 |
| California Resources Corp | 1,405,000 | 7.47% | 1,908,012 | 5.23% | 1,720,274 |
| Civitas Resources Inc | 1,671,035 | 252.81% | 80,820,138 | 176.97% | 39,812,190 |
| Teekay Tankers Ltd | 572,734 | 31.91% | 2,089,684 | 22.34% | 1,403,380 |
| Kosmos Energy Ltd | 866,584 | 18.46% | 1,760,998 | 12.92% | 1,374,994 |

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**Conclusion and Recommendations:**

Based on the projected Gross Profit (GP) for 2027, here are the conclusions and recommendations:

1. **Suncor Energy Inc (SU)**:
   * **Conclusion**: Suncor Energy Inc shows the highest projected GP growth, with an adjusted projected GP of $113,734,036 in 2027. This substantial growth indicates strong potential for the company to increase its market share and profitability.
   * **Recommendation**: Invest heavily in Suncor Energy Inc. Its strong growth prospects and significant increase in GP make it a prime candidate for investment. Monitor market conditions and technological advancements to leverage any opportunities for further growth.

2. **Murphy Oil Corp (MUR):**

* **Conclusion**: Murphy Oil Corp shows a moderate projected GP growth with an adjusted projected GP of $1,926,086 in 2027. While the growth is positive, it is lower compared to Suncor.
* **Recommendation**: Maintain a moderate investment in Murphy Oil Corp. While it shows growth potential, it's essential to keep an eye on market conditions and operational efficiency to ensure sustained profitability.

**3. Profire Energy Inc (PFIE):**

* **Conclusion:** Profire Energy Inc shows a strong growth rate with an adjusted projected GP of $87,778.96 in 2027. The company's growth rate is impressive, indicating potential for substantial returns.
* **Recommendation:** Increase investment in Profire Energy Inc. Its high growth rate suggests significant potential for future profitability. Focus on enhancing operational efficiencies and adopting new technologies to sustain this growth

**4. California Resources Corp (CRC):**

* + **Conclusion**: California Resources Corp shows a steady growth rate with an adjusted projected GP of $1,720,274 in 2027. The company demonstrates reliable performance, indicating stability.
  + **Recommendation**: Maintain a steady investment in California Resources Corp. Its stable growth makes it a reliable option for long-term investment. Monitor regulatory changes and market conditions to mitigate any potential risks.

### **Additional Variables:**

To further refine the projection model and decision-making process, the following additional variables are considered:

* **Market Conditions:** Monitor changes in oil prices, geopolitical factors, and economic indicators that could impact the energy sector.
* **Regulatory Changes:** Stay updated on environmental regulations, tax policies, and other government interventions that could affect operations.
* **Technological Advancements:** Invest in new technologies to improve efficiency, reduce costs, and stay competitive.

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### **Impact on Each Company**

**Suncor Energy Inc (SU):**

* **Market Conditions:** Benefiting from stable oil prices and geopolitical conditions, Suncor is likely to see increased revenues and profitability, enhancing its valuation.
* **Technological Advancements:** Investing in new technologies will boost efficiency and production, driving growth and improving the company's market position.
* **Regulatory Changes:** Favorable regulations, such as incentives for clean energy, will reduce costs and improve profitability, positively impacting Suncor’s value.
* **Global Energy Demand:** Increasing global energy demand will lead to higher sales and profitability, further boosting the company's valuation.

**Murphy Oil Corp (MUR):**

* **Market Conditions:** Stable market conditions will help maintain steady revenue growth, positively affecting Murphy Oil’s value.
* **Technological Advancements:** Embracing new technologies will enhance operational efficiency and reduce costs, supporting long-term growth.
* **Regulatory Changes:** Navigating regulatory changes effectively will minimize compliance costs and maximize benefits, aiding in maintaining profitability.
* **Global Energy Demand:** Steady demand growth will support revenue stability and profitability, positively impacting Murphy Oil’s valuation.

**Profire Energy Inc (PFIE):**

* **Market Conditions:** Favorable market conditions will enhance revenue growth and profitability, improving Profire Energy’s valuation.
* **Technological Advancements:** Adoption of cutting-edge technologies will improve operational efficiencies and drive profitability.
* **Regulatory Changes:** Favorable regulatory changes will reduce compliance costs and improve profitability.
* **Global Energy Demand:** Rising demand for energy will lead to increased sales and profitability, boosting Profire Energy’s valuation.

**California Resources Corp (CRC):**

* **Market Conditions:** Stable market conditions will support steady revenue and profitability growth, positively impacting CRC’s value.
* **Technological Advancements:** Investing in new technologies will enhance operational efficiency and drive profitability.
* **Regulatory Changes:** Favorable regulations will reduce compliance costs and improve profitability.
* **Global Energy Demand:** Increased global energy demand will lead to higher sales and profitability, positively affecting CRC’s valuation.

**References**

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