



Home > Companies > A Side-by-side Analysis of Cimarex Energy Co. (XEC) and **Ecopetrol** S.A. (EC)

Companies

A Side-by-side Analysis of Cimarex Energy Co. (XEC) and **Ecopetrol** S.A. (EC)

By **Katie Ford** - December 2, 2019



Cimarex Energy Co. (NYSE:XEC) shares are down more than -25.43% this year and recently decreased -0.48% or -\$0.22 to settle at \$45.97. **Ecopetrol** S.A. (NYSE:EC), on the other hand, is up 15.30% year to date as of 11/29/2019. It currently trades at \$18.31 and has returned -0.11% during the past week.

Cimarex Energy Co. (NYSE:XEC) and **Ecopetrol** S.A. (NYSE:EC) are the two most active stocks in the Independent Oil & Gas industry based on today's trading volumes. To determine if one is a better investment than the other, we will compare the two companies' growth, profitability, risk, return, and valuation characteristics, as well as their analyst ratings and sentiment signals.

Growth

One of the key things investors look for in a company is the ability to grow earnings at a high compound rate over time. Analysts expect XEC to grow earnings at a 1.66% annual rate over the next 5 years. Comparatively, EC is expected to grow at a -7.70% annual rate. All else equal, XEC's higher growth rate would imply a greater potential for capital appreciation.

Profitability and Returns

Just, if not more, important than the growth rate is the quality of that growth. Growth can actual be harmful to investors if it comes at the cost of weak profitability and low returns. To adjust for differences in capital structure we'll use EBITDA margin and Return on Investment (ROI) as measures of profitability and return., compared to an EBITDA margin of 9.23% for **Ecopetrol** S.A. (EC). XEC's ROI is 16.90% while EC has a ROI of 15.10%. The interpretation is that XEC's business generates a higher return on investment than EC's.

Cash Flow

The value of a stock is simply the present value of its future free cash flows. XEC's free cash flow ("FCF") per share for the trailing twelve months was -0.09. Comparatively, EC's free cash flow per share was +118.23. On a percent-of-sales basis, XEC's free cash flow was -0.39% while EC converted 221.45% of its revenues into cash flow. This means that, for a given level of sales, EC is able to generate more free cash flow for investors.

Liquidity and Financial Risk

Liquidity and leverage ratios measure a company's ability to meet short-term obligations and longer-term debts. XEC has a current ratio of 0.70 compared to 1.40 for EC. This means that EC can more easily cover its most immediate liabilities over the next twelve months. XEC's debt-to-equity ratio is 0.52 versus a D/E of 0.68 for EC. EC is therefore the more solvent of the two companies, and has lower financial risk.

Valuation

XEC trades at a forward P/E of 8.73, a P/B of 1.18, and a P/S of 2.02, compared to a forward P/E of 11.25, a P/B of 2.27, and a P/S of 1.88 for EC. Given that earnings are what matter most to investors, analysts tend to place a greater weight on the P/E.

Analyst Price Targets and Opinions

When investing it's crucial to distinguish between price and value. As Warren Buffet said, "price is what you pay, value is what you get". XEC is currently priced at a -28.83% to its one-year price target of 64.59. Comparatively, EC is 0.94% relative to its price target of 18.14. This suggests that XEC is the better investment over the next year.

Risk and Volatility

To gauge the market risk of a particular stock, investors use beta. Stocks with a beta above 1 are more volatile than the market as a whole. Conversely, a beta below 1 implies below average systematic risk. XEC has a beta of 1.38 and EC's beta is 1.67. XEC's shares are therefore the less volatile of the two stocks.

Insider Activity and Investor Sentiment

Analysts often look at short interest, or the percentage of a company's float currently being shorted by investors, to aid in their outlook for a particular stock. XEC has a short ratio of 3.46 compared to a short interest of 16.19 for EC. This implies that the market is currently less bearish on the outlook for XEC.

Summary

Cimarex Energy Co. (NYSE:XEC) beats **Ecopetrol** S.A. (NYSE:EC) on a total of 10 of the 14 factors compared between the two stocks. XEC is growing fastly, is more profitable, generates a higher return on investment and has lower financial risk. In terms of valuation, XEC is the cheaper of the two stocks on an earnings and book value, XEC is more undervalued relative to its price target. Finally, XEC has better sentiment signals based on short interest.

TAGS **EC** **Ecopetrol** S.A. (NYSE:EC) XEC Cimarex Energy Co. (NYSE:XEC)



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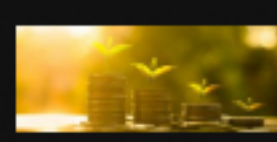


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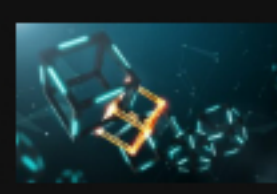
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