Why This Energy Stock Is up More Than 12%

Description

With OPEC's upcoming meeting today to discuss whether or not the deal to cut 1.8 million barrels a day of production will be extended, the market seems to be expecting the best.

Oil is still trading at above $50 per barrel, as the production cuts have thus far done a good job at reducing the supply glut, and this coupled with the fact that demand is stronger than expected this year has investors buying energy shares.

Let's take a look at a couple of the best names in the space for investors to own.

Shawcor Ltd. (TSX:SCL) was up more than 12% yesterday, and for good reason. As the market leader in the pipeline coating business, this company has had its really good times, but as of late it has suffered with the rest of them.

Shawcor's big clients in North America include **TransCanada Corporation** and **Enbridge Inc.**

Now with oil prices above $50, and capital spending slowly starting to recover as a result, Shawcor has been seeing a positive trend over the last few quarters. Last quarter, the second quarter of 2017, saw the company report adjusted EBIITDA of $53 million, a 24% improvement over the first quarter and revenue of $384 million, a 7% increase versus the first quarter.

That's good stuff, especially considering that in 2016, the company was reporting double-digit declines in revenue and EBITDA losses.

And the company's dividend yield of 2.18% is respectable as we wait for the sector to really recover.

Canadian Natural Resources Limited (TSX:CNQ)(NYSE:CNQ) is another one to own as the oil and gas market recovers. The shares were up 1.35% yesterday and are trading at a 2.62% dividend yield.

In my view, this company is special, because it offers a long-life, low-decline portfolio, and oil and gas assets that have given the company a predictable and reliable stream of cash flow with little reserve-replacement risk. This means investors get exposure to the sector's upside, while mitigating the downside risk.

We can expect Canadian Natural Resources to continue to see a significant ramp up in free cash flow generation in the next year. This will be driven by the company’s recent acquisition of 70% of the Athabasca Oil Sands Project.

This cash flow will be used to strengthen the balance sheet, be returned to shareholders, and used for organic and acquisition opportunities. All of these uses of cash will act as a catalyst for the stock.

We should note the CNQ has never cut its dividend. Ever. This is relevant when we consider the carnage that has happened in the oil and gas sector recently, but also if we just consider the general cyclicality and volatility of the sector.

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