2 Top Energy Stocks to Buy This Summer

Description

This week has been a big disappointment for oil bulls. After hitting a three-year high, oil prices suddenly reversed and fell about 10%.

U.S. oil futures were trading around $66.50 per barrel at the time of writing, down from about $73 last week. The global benchmark Brent crude oil has dropped by about 6% to trade around $76 after peaking above $80.

The sharp plunge came after Saudi Arabia, the biggest oil exporter in the world, hinted that it’s willing to pump more oil to ease global supply concerns.

Does this sudden change of direction in markets signal an end to a strong rally in oil stocks? It might very well be case. But if this sell-off accelerates, it might also be a good opportunity to pick some solid energy stocks, whose fate isn’t too dependent on the direction of oil markets.

In this class, **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) are my all-time favourites. Let’s have a deeper look.

Suncor

I was bullish on Suncor, Canada’s second-largest oil producer, when oil was trading close $40 a barrel. I like Suncor because this company has a unique position in Canada’s oil sands sector with its integrated and highly efficient upstream and downstream businesses.

These independent operations can each generate strong, standalone profitability, while effectively mitigating the impact of crude price fluctuations, or any disaster. In 2016, when Suncor’s oil sands production was shuttered due to a huge wildfire, the company’s refining operations were able to source alternate feedstock and continued to produce.

Since the 2014 oil downturn, Suncor has undertaken an aggressive cost-cutting program and expanded its asset base by buying assets from operators that decided to exit Canada. In 2017, Suncor’s cost to dig a barrel of crude oil fell to $23.80 from $37 in 2013, representing the lowest level achieved in more than a decade.

So, even if oil prices fall another 5-10%, Suncor will still be profitable. In the most recent quarter, the company’s operating profit, which excludes one-time items, jumped 21.3% to $985 million, or $0.60 per share, helped by better pricing and margins.

Enbridge

Enbridge is another company that has a huge diversified asset base, shielding it from wild oil price fluctuations.

Being the largest pipeline operator in North America, Enbridge transports 28% of North American crude supplies and 20% gas consumption to the market. The company also has the second-largest gas storage facilities in the region, making it one of the most critical infrastructure players for the North American economy.

After a 20% pullback in its share price this year, Enbridge stock is offering good value to long-term investors, especially when its dividend yield has swelled to 6.7%. The company's shares have been under pressure on concerns that its rising debt load will hamper growth in its payouts or, in a worst-case scenario, could force the management to cut them.

But the latest price action suggests that this top energy stock has probably hit the bottom, and the next move from here will be on the higher side. With the forward price-to-earnings multiple of 15 and 11% dividend growth, it's a good time to get exposure to this top energy stock.

The bottom line

Look for opportunities in the energy space if oil resumes its bearish spell this summer. The large-cap energy utilities and integrated oil companies that have restructured their operations are the best picks if another downturn hits the oil market.

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