Cenovus Energy Inc. (TSX:CVE) Is 1 of 3 Absurdly Cheap Energy Stocks for Your TFSA

Description

Oil prices remain comfortably above $70 at writing in the midst of a slide that has taken it down 5% since the beginning of October.

It's a little weakness after a phenomenal year that saw oil make a comeback and rise 50%.

By and large, most Canadian energy stocks have not followed suit, in large part because of infrastructure problems in Canada that have left oil and gas stranded.

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ), for example, is trading at levels that are slightly lower one year ago.

Yes, Canadian Natural's realized pricing was 10% lower than WTI prices in the second quarter of 2018, but it was still up a whopping 30% compared to the prior year.

Strong cash flows, continued debt reduction, and an increasing dividend has characterized this company's results, which makes it a top energy stock.

In fact, in the first six months of 2018, Canadian Natural has seen a 38% increase in funds from operations per share and free cash flow of approximately $2.2 billion.

So with a 3.48% dividend yield and a predictable and reliable stream of cash flow with little reserve replacement risk, Canadian Natural Resources stock remains a top pick for energy exposure.

Next up is **Freehold Royalties Ltd.** (TSX:FRU).

Freehold is an energy stock that is also a dividend stock that's trading at bargain prices these days.

While the price of oil has been strong, Freehold stock has declined 29%.

And while oil prices in Canada are trading at a discount, they are still up across the board.

So Freehold Royalties stock is one to consider because Freehold offers investors a relatively low risk way to play the energy space, with a 5.96% dividend yield, a well-diversified asset base, and a low risk business model with relatively predictable cash flows and a strong balance sheet.

This company has a long history of value creation — a history that long-term shareholders have done very well with.

Freehold Royalties generates a free cash flow yield of approximately 10% at $65 oil and is well positioned to continue to create real value for shareholders.

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) also receives a discounted oil price relative to WTI.

But like CNQ, its realized price was also up 30% in the second quarter of 2018.

In the last four years or so, oil sands operating cost per barrel of oil has been reduced by more than 40% to well under $9.00 per barrel, and oil sands sustaining capital requirements have been reduced by more than 50% to approximately $6.00.

This has been and will continue to drive cash flows for Cenovus Energy stock.

Furthermore, the $17.7 billion acquisition of assets from **ConocoPhillips** in 2017 has served to dramatically increase the company's production profile, also driving strong cash flow growth.

And as free cash flow ramps up in 2018 and 2019, I think we can expect to see increasing dividends, debt reduction, and more share buybacks — all catalysts for strong performance for Cenovus Energy stock.

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2. NYSE:CVE (Cenovus Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:CVE (Cenovus Energy Inc.)
5. TSX:FRU (Freehold Royalties Ltd.)

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