Investors, Act Now: Canadian Energy Stocks Are at an Inflection Point

Description

With Canadian oil trading at a significant discount to WTI oil, the market has steered clear of Canadian energy stocks. But there are three things that I would point to that should provide investors with confidence that things are slowly turning around: the LNG Canada approval, increasing oil-by-rail volumes, and pipeline expansion projects that are in the works.

Canadian oil-by-rail shipments reached an all-time high of 204,000 barrels per day in June, with expectations that this number will possibly double by the end of this year. That's big relief.

Enbridge (TSX:ENB)(NYSE:ENB) has $7 billion worth of pipeline expansion projects that will be completed this year, which will increase capacity.

So, in this carnage, some winners have emerged — energy companies that are performing well and/or can be expected to perform well, yet that have lost a significant amount of their stock values, making them interesting energy stocks to consider as long-term buys.

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ is one such energy stock.

It is my view that CNQ stock is at an inflection point, ready to skyrocket.

CNQ is a cash machine that continues to generate strong cash flows and returns for shareholders, yet CNQ stock is down 19% year to date. But CNQ just reported third-quarter results that show a solid business that is generating strong shareholder returns.

In the first nine months of 2018, CNQ has seen a 50% increase in funds from operations, free cash flow after dividends of approximately $3.1 billion, and a sharp improvement in oil sands mining operating costs to $22.90 per barrel.

Adjusting to the times, management has made strategic business decisions to minimize the value destruction that is ongoing in this price environment.

In the third quarter, CNQ decided to shut in or curtail production by roughly 10,000-15,000 barrels per day (bpd) in October. The company is targeting another roughly 45,000-55,000 bpd to be curtailed in November and December.

With a 3.49% dividend yield, a predictable and reliable stream of cash flows with little reserve-replacement risk, CNQ stock remains a top pick for energy exposure.

Baytex Energy (TSX:BTE)(NYSE:BTE), which reported a 16% increase in funds from operations in the first six months of 2018, has seen its stock price get pummeled in the last year as well. It's down 41%.

But Baytex's merger with Raging River Exploration closed in August, and this merger has solved the two biggest problems for Baytex, making it a solid choice to consider for upside to the energy sector.

It strengthens Baytex’s balance sheet, bringing its net debt to equity ratio to below two times from three times, and it diversifies its production base, giving the company quality light oil assets and land in the Duvernay area in Alberta.

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Date
2025/07/06
Date Created
2018/11/02
Author
karenjennifer