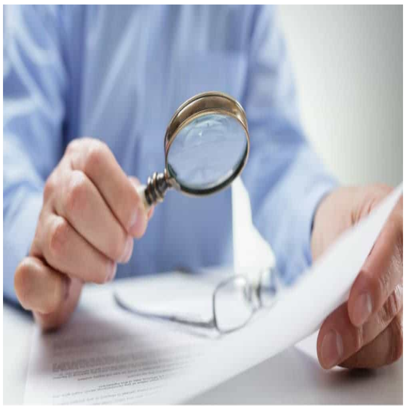

Find Opportunity in the Carnage With These 4 Energy Stocks

Description

Energy stocks are still taking a beating due to the discount that Canadian oil is trading at — a discount that has widened considerably and put pressure on the sector.

Although this is clearly a big problem that will take some time to rectify, that doesn't mean it isn't also a very attractive buying opportunity.

The value in the following four energy stocks is big, as they continue to churn out massive cash flows, yet their stocks keep declining.

Oil-by-rail volumes are increasing and being pushed to increase even more; this is a mitigating factor to the pressure Canadian oil prices are experiencing.

And pipeline expansion projects, which are much easier to implement than whole new pipelines, are being advanced, which is also positive.

Here are four energy stocks to consider getting into at historic lows.

Cenovus Energy (TSX:CVE)(NYSE:CVE)

The $17.7 billion acquisition of assets from ConocoPhillips in 2017 has served to dramatically increase Cenovus's production profile and drive strong cash flow growth.

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

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ)

Canadian Natural is a cash machine that continues to generate strong cash flows and returns for shareholders, yet its stock is down 21% year to date.

In the first nine months of 2018, Canadian Natural has seen a 48% increase in funds from operations per share and free cash flow of approximately $3.1 billion.

With a 3.73% dividend yield and a predictable and reliable stream of cash flow with little reserve-replacement risk, Canadian Natural stock remains a top pick for energy exposure.

Freehold Royalties (TSX:FRU)

With a highly diversified list of exposure and a royalty model, Freehold is more sheltered from Canadian oil discounts than other Canadian energy stocks.

Trading at $9.20 at the time of writing, Freehold stock currently has a dividend yield of 6.85%, as it has been hit hard in the last year, down roughly 40%.

Operating cash flow increased 27% versus last year in the third quarter of 2018 and 9% versus last quarter.

And with a payout ratio of only 55%, investors have enjoyed dividend increases in recent times, as the company's free cash flow generation has increased dramatically in accordance with the increase in oil prices.

Peyto Exploration and Development (TSX:PEY)

Peyto has been struggling with persistently low natural gas prices, as reflected in third-quarter cash flows, which declined 16% year over year, as management made the decision to shut in certain unhedged natural gas volumes this quarter, and they are attempting to combat low prices by focusing more on liquids.

So, naturally, Peyto stock was down after the report and has been stuck in the $10-12 range since February of this year.

But in 2019, cash flows should look better, as 20% of volumes will be exposed to U.S. natural gas pricing, as the company has made arrangements for this, and as the company has shifted drilling focus to liquids in an attempt to be flexible to respond to market conditions.

Peyto stock has a dividend yield of 6.23%, which is still easily covered by cash flows and remains safe at this time.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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1. Editor's Choice

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