2 Energy Stocks for Big Upside in an Uncertain Energy Market

Description

It's no secret that the Canadian energy industry has and continues to struggle under the enormous pressure caused by a lack of infrastructure and capacity to move the resource to desired markets.

And even with the recently announced provincial production cuts of approximately 350,000 barrels per day, the situation remains precarious, as Bandaid solutions might not be the saving grace we'd hoped for.

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With this in mind, where can investors turn for exposure to the energy sector — a sector that has certainly been struggling, but that nevertheless still holds significant value for the country, energy companies, and energy investors?

Here are two energy stocks that fit the bill with good upside and dividend yields.

Enerplus Inc. (TSX:ERF)(NYSE:ERF)

Enerplus reported a 4% increase in production in the third quarter of 2018, a 2% to 3% increase in oil and gas realized prices, and a 21% increase in funds from operations.

The company's realized oil price was $83.98 per barrel in the quarter, thereby reflecting its quality. Not bad at all.

And a top-notch balance sheet, operating performance, and cash flow growth profile sets it apart from its peers.

With slightly less than half of its production coming from conventional crude oil, and 90% of production coming from crude oil in general, this $3 billion oil and gas giant is set up to continue to benefit from strong oil prices.

In 2017, operating cash flow increased 72%, and so far in 2018 operating cash flow has increased 60% to $539 million.

The company's capital plans, which are fully funded, are expected to result in strong production and cash flow growth over the next few years, and management believes, as I do, that this is not reflected in its stock price.

While the dividend yield is low, at less than 1%, this dividend is extremely well covered by cash flows, and the company is actively buying back shares.

Suncor Energy (TSX:SU)(NYSE:SU)

Suncor is a 3.33% yielding dividend energy stock that is relatively immune to the Canadian oil differential.

This is due to the fact that it has an integrated business model, which means exposure to the upstream (production), as well as downstream (refining and processing).

This effectively means that a large percent of its oil production goes through its own refineries that are exposed to Brent or WTI pricing.

Suncor reported a strong 27% increase in funds from operations in its third quarter, as the company benefitted from strong downstream results.

Continued strong free cash flow generation means that Suncor is well set up to increase its dividend, and management has publicly stated its intention to do so.

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These energy stocks provide investors will strong upside, but also protection from downside risk. These stocks are therefore extremely attractive ways to play the energy space.

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