# 3 Oil and Gas Stocks to Buy for Diversification

## Description

Capitulation. "The action of surrendering or ceasing to resist and opponent or demand."

As investors, oil and gas stocks are our opponent. And they have been kicking our butts.



But it is always darkest before sunrise, and it looks like the conditions are setting up to speed up the coming of this sunrise for energy stocks.

First, the Alberta premier recently mandated an almost 9% production cut in order to increase Canadian oil prices, and with the differential shrinking to roughly $10 as Canadian oil prices have since soared, we're moving in the right direction.

Second, federal action in the form of $1.6 billion in aid is coming in order to promote and support Canada's energy sector.

Here are the three oil and gas stocks to buy for diversified energy exposure as capitulation nears and investors start thinking of potential upside — one heavily weighted toward oil, one heavily weighted toward natural gas, and one energy services company.

**Canadian Natural Resources Ltd**. (TSX:CNQ)(NYSE:CNQ)

Canadian Natural is a cash machine that continues to generate strong cash flows and returns for shareholders, yet CNQ stock is down 28% year to date.

In the first nine months of 2018, Canadian Natural 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.

With a 4.07% dividend yield, a predictable and reliable stream of cash flows with little reserve replacement risk, CNQ stock remains a top pick for energy exposure into 2019.

**Nuvista Energy Ltd**. (TSX:NVA)

Nuvista has gotten killed year to date and has lost more than half of its value.

With a 60% natural gas weighting, we can easily see why.

But natural gas prices have been rising dramatically, so why isn't Nuvista stock?

I guess the answer lies in the market's long-term negative view of the commodity, but assuming they are wrong, Nuvista has big upside.

And for its part, Nuvista is expecting strong production growth of almost 20% this year.

With its flexible balance sheet and a reasonable level of debt (20% debt to total capitalization ratio), the company is able to continue growing its production well into the future.

**Pason Systems Inc**. (TSX:PSI)

Pason Systems stock is trading flat relative to year-to-date levels, amid continued top-notch results while providing a dividend yield of 3.87%



Pason is an oil field services company whose competitive advantage lies in the technology that it has and continues to bring to the market, making the oil and gas business a less risky and more profitable one.

The company has a strong track record and when we look at its history, we can see evidence of strong cash flow generation, consistent dividend increases and a very profitable business model.

In the first nine months of 2018, Pason reported a 25% increase in revenue, a 574 basis point increase in EBITDA margins, and a 64% increase in funds flow from operations.

**Final thoughts**

For long-term investors looking for a diversified portfolio of oil and gas stocks, start with the three discussed here, as they offer strong upside at current prices.

**CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

**TICKERS GLOBAL**

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:NVA (NuVista Energy Ltd.)
4. TSX:PSI (Pason Systems Inc.)

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