3 Top Energy Stocks to Buy in 2019

Description

Many investors may be scared out of energy stocks because of their horrible performance for the last few years. However, if you aim for quality stocks and trade them actively, there's certainly money to be made. And right now, they're cheap and offer strong upside potential.

The most solid energy stock

Suncor Energy (TSX:SU)(NYSE:SU) is profitable in all cycles. Despite low oil and gas prices, Suncor has been profitable with a recent net margin of 12.7%. It's profitable because of its integrated business that doesn't entirely rely on commodity prices to do well. For example, its refinery and marketing operations make it a top defensive choice in times of low energy prices.

In the last four reported quarters ending in September, Suncor generated almost $10.3 billion of operating cash flow. Even after accounting for capital spending, it had $4.4 billion of free cash flow.

Suncor has a strong balance sheet. As a result, it's awarded a high S&P credit rating of A-. In the last reported quarter, Suncor had $2.3 billion of cash and cash equivalents, while it had $13.3 billion of long-term debt. Since Suncor generates so much free cash flow, it can pay down its debt quickly if it wanted to.

Other than having a potential upside of about 50% over the next year, according to the mean target of **Thomson Reuters** from $38.07 per share as of writing, Suncor also offers an increasing dividend with a starting yield of about 3.8%.

Image source: Getty Images.

Another profitable energy stock

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is a large oil and gas producer, and it remains very profitable in spite of low oil and gas prices. Its recent net margin was 16.8%.

In the last four reported quarters ending in September, Canadian Natural Resources generated operating cash flow of than $10.1 billion. Even after accounting for capital spending, it still had $5.7 billion of free cash flow.

Canadian Natural Resources has a decent balance sheet and is awarded an S&P credit rating of BBB+. In the last reported quarter, the producer had $296 million of cash and cash equivalents, while it had $19.2 billion of long-term debt.

Reuters's mean 12-month target on Canadian Natural Resources indicates the stock has 47% near-term upside potential at $33.63 per share as of writing. Canadian Natural Resources also offers an increasing dividend with a starting yield of about 4%.

If oil and gas prices improve, Canadian Natural Resources should have more torque than Suncor due to its increased exposure to the commodity prices.

Buy Vermilion for upside potential and not for its dividend

Vermilion Energy (TSX:VET)(NYSE:VET) offers the strongest upside of the three. However, it's also the riskiest. It had a recent net margin of -3.1%. So, it's not profitable.

However, it's a well-managed mid-cap oil and gas producer with international operations. Thanks to its operations outside North America, it gets premium pricing from its Brent oil and European gas production.

In the last four reported quarters ending in September, Vermilion generated $787.4 million of operating cash flow. After accounting for capital spending, it had $101 million of free cash flow.

Vermilion has a non-investment grade S&P credit rating of BB. In the last reported quarter, the company had about $24 million of cash and cash equivalents, while it had $1.8 billion of long-term debt.

Reuters's mean 12-month target on Vermilion indicates the stock has 61% near-term upside potential from the recent quotation of $29.78 per share. Vermilion offers a big yield of 9.3%, and it has maintained or increased its dividend since 2003. However, it can't be guaranteed that its dividend is bullet-proof.

If oil and gas prices improve, Vermilion will experience greater upside than the other two stocks.

Final thoughts

Suncor, Canadian Natural Resources, and Vermilion are ordered from the safest to the least safe. The first two companies' dividends should be safe and increasing. However, with energy stocks, it makes sense to aim for price appreciation because of the volatile nature of the businesses.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:VET (Vermilion Energy)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:SU (Suncor Energy Inc.)
6. TSX:VET (Vermilion Energy Inc.)

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