Investor Alert: 2 Top Canadian Energy Stocks That Are Heading Much Higher

Description

Remember last year when all the talk was about widening Canadian oil differentials? Canadian energy stocks such as **Cenovus Energy** (TSX:CVE)(NYSE:CVE) were hitting multi-year lows and it felt like it was doomsday.

Well, let's fast forward four months to today.

Western Canadian Select oil prices are 344% higher than December 2018 lows, and the differential has shrunk to a mere $10.

And while the capacity constraints have not gone away, there have been small steps taken, such as mandated production curtailments, crude by rail, and certain pipeline expansions that have driven oil prices and that warrant a less-pessimistic tone.

Cenovus, which is the most indebted of its peer group, stands to benefit from dramatically higher Canadian oil prices, and we should expect very strong cash flow numbers when the company reports it first-quarter 2019 results on April 24.

Cenovus stock continues to have big upside, and for those contrarian investors that are willing to be dip their toes in the unpopular energy sector, this upside can be realized in time.

So far, Cenovus stock has rallied 50% from its December 2018 lows.

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 through to 2020, we can expect to see increasing dividends, debt reduction, and more share buybacks — all catalysts for strong performance for Cenovus stock.

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) stock has rallied 31% from its December 2018 lows, as it too has benefitted from the rally in Canadian oil prices.

And with its strong history of dividend increases, with another 12% dividend increase in its most recent quarter, shareholders can expect to reap the rewards of this.

CNQ stock's dividend yield now stands at 3.79%. Its dividend is safe and stable, with Canadian Natural's stable operations underpinning its strong, growing cash flow and its healthy, flexible balance sheet.

In the fourth quarter 2018, CNQ generated $1.2 billion in cash flow ($1.02 per share), despite the Canadian oil differential widening dramatically during the quarter.

Costs continued to fall, and the company continued to return cash to shareholders as a reflection of management's confidence in its future.

On May 9, the company will report first-quarter 2019 results, and given the dramatic increase in Canadian oil prices and the company's continued top-notch operational performance, investors can be expected to be blown away.

This is a testament to the company's resiliency and its quality.

Final thoughts

The sharp rise in Canadian oil prices will really shine through in Cenovus and CNQ's results next month.

Even after sharp rallies in both Cenovus stock and CNQ stock, these cash flow machines are still creating big shareholder value, and as such, both stocks can be expected to outperform.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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2. NYSE:CVE (Cenovus Energy Inc.)
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