Top Picks Monday: 3 Canadian Energy Stocks to Buy As Oil Surges

Description

Oil is extending its 2019 rally, which has investors wondering if they should finally move some funds back into energy stocks.

Let's take a look at the current outlook for the oil market and see which oil stocks might be the best buys right now to capitalize on the current recovery.

Rebound

WTI oil traded for US$42 per barrel in December 2018, and Western Canadian Select (WCS) briefly dipped below US$11 in late November. Today, WTI is above US$65.50 and WCS trades for US$54 per barrel. The benefits of the rally through the first part of 2019 should show up in the Q1 earnings reports for Canadian producers while the sector has picked up a tailwind. More gains could be on the way.

Why?

Saudi Arabia and a handful of OPEC and non-OPEC partners are determined to drive prices higher through output cuts. The group has removed about 1.2 million barrels of oil per day from the market this year. In addition, political turmoil in Libya and Venezuela continue to impact supplies.

In addition, the U.S. imposed new sanctions on Iran last fall and is now saying it will end waivers provided to some countries to allow them to import oil from the country. If the Trump administration is serious, the move could reduce supplies by another million barrels of oil per day. Saudi Arabia and its partners would be expected to fill the gap, but a refusal could send oil much higher in the coming months.

Some analysts have predicted WTI oil will top US$70 in 2019. At this point, the momentum suggests that we could see the target reached in the first half of the year. If that turns out to be the case, a few stocks deserve to be on your radar right now.

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

Suncor is Canada's largest integrated energy company, with oil sands and offshore oil production sites, refineries, and retail operations. The diversified revenue stream all along the value chain provides Suncor with stability when oil prices fall, and strong upside potential when production margins expand. The company raised the quarterly dividend by nearly 17% to $0.42 per share for 2019, which translates into an annualized a yield of 3.7%.

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

CNRL owns oil sands, heavy oil, light oil, natural gas liquids, and natural gas production facilities in Canada, the North Sea, and Offshore Africa.

The company does a good job of allocating capital to the highest-return opportunities in the portfolio and has the financial firepower to make strategic acquisitions when attractive opportunities come up in the sector.

CNRL raised its dividend by 12% for 2019 and is using excess free cash flow to reduce debt and buy back shares. The current distribution provides a yield of 3.6%.

Crescent Point Energy (TSX:CPG)(NYSE:CPG)

Crescent Point is the contrarian pick in the list, but the stock has taken such a pounding in recent years that any sustained move in oil prices could result in a significant rise in the share price. Crescent Point traded at $45 per share in 2014. Today, investors can pick up the stock for $5.50.

Crescent Point owns attractive light-oil reserves and the new management team is working hard to shore up the balance sheet. Rising margins will help make the job easier and Crescent Point could become a takeover target.

The bottom line

The oil rally that occurred in 2018 turned out to be a head fake, so investors should be cautious when deciding how much money to allocate to the sector. That said, Suncor, CNRL, and Crescent Point all appear cheap today and could deliver big returns if the current oil recovery extends through the end of the year.

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