Contrarian Investors: 2 Oversold Energy Sector Stocks Consider Right Now

Description

The latest pullback in the oil market is taking a toll on the share prices of Canada's energy companies, and investors are wondering if the dip is a good opportunity to buy oil stocks.

Some companies should be avoided, while others might be interesting contrarian picks.

Companies that carry significant debt are at a higher risk when oil prices fall. The reduced margins put pressure on essential cash flow needed to cover the borrowing costs. In addition, companies with weak balance sheets have limited room to boost their borrowing to cover a downturn, and they often do not have access to funds needed to boost drilling to increase production.

The stocks that become attractive when oil falls are the ones with strong cash positions and access to capital. These tend to be the larger companies with diverse production assets or integrated businesses with operations all along the value chain.

Let's take a look at two stocks that might be interesting buys right now for a contrarian portfolio.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) just announced a $3.8 billion deal to acquire the Canadian assets of **Devon Energy**. The move is a great example of how strong companies can take advantage of weak market conditions to boost their resource base. The purchase will add to CNRL's extensive oil sands operations. The company is already Canada's largest natural gas producer and has facilities producing light oil, heavy oil, offshore oil, and natural gas liquids.

CNRL raised its dividend by 12.5% for 2019 and is buying back stock while reducing debt. The share price is down to $36 compared to $49 last July. Investors who buy today can pick up a 4.2% yield and sit back while they wait for the market to recover.

Suncor

Suncor (TSX:SU)(NYSE:SU) is Canada's largest integrated energy company. It is best known for its oil sands operations, but also has offshore oil assets as well as large refineries and a national network of Petro-Canada retail operations. These "downstream" assets provide a nice revenue buffer against falling oil prices, and they can generate good margins on finished products when input casts drop.

Suncor receives WTI or Brent pricing for most of its production thanks to advantageous access to key pipeline capacity that takes product to the United States. The company maintains a strong balance sheet, and like CNRL, is capable of making strategic acquisitions when the oil market hits a rough patch.

Suncor raised its dividend by nearly 17% for 2019 and is buying back a big chunk of shares under the current share-repurchase plan. At the time of writing, the stock trades for $41 per share compared to $55 last summer.

The bottom line

CNRL and Suncor are big players with strong balance sheets and growing dividends. Additional near-term downside could be on the way, but contrarian investors might want to start nibbling on these stocks while they remain out of favour. CNRL likely offers more upside torque on a rebound in prices while Suncor is probably the safer pick.

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