



2 Top Stocks for a Comeback in the Energy Sector

Description

It has generally been a bad investment to buy energy stocks. However, it may be a good idea to get some exposure to the space in these two top stocks that have strong balance sheets, safe dividends, and incredible upside potential.

Suncor Energy

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) has operations that are diversified with integrations across the value chain from oil and gas production to retail sales. It has refining capacities so that the stock holds up better in a low oil price environment.

To demonstrate Suncor's resilience to low energy prices, it continues to generate lots of cash flow. In the trailing 12-month period, it generated \$11.4 billion of operating cash flow and more than \$6.3 billion of free cash flow. To sustain the business and its dividends, it only requires a WTI break-even price of about US\$45, while the WTI is solidly at about US\$57 currently.

Furthermore, [Suncor](#) maintains a strong balance sheet with an S&P credit rating of A-. At the end of the last quarter, it had \$5.3 billion of liquidity including \$1.9 billion of cash.

At under \$41 per share, Suncor offers a safe 4.1% yield. Analysts have an average 12-month target of \$54.40 on the stock, which represents whopping near-term upside potential of 33%!



Canadian Natural Resources

Canadian Natural Resources ([TSX:CNQ](#))([NYSE:CNQ](#)) is a large oil and gas producer with a diversified mix of products, including oil sands mining and upgrading, natural gas, heavy crude oil, and light oil.

Like Suncor, CNQ shows strong resilience to low energy prices, as the company continues to generate lots of cash flow. In the trailing 12-month period, it generated \$8.6 billion of operating cash flow and more than \$4.3 billion of free cash flow.

Because of its strong balance sheet, CNQ was able to acquire Devon Canada for about \$3.8 billion recently in a cash deal. The company estimates to exit 2019 with a debt-to-adjusted EBITDA of about 1.6 times, which is a very reasonable debt-to-cash flow ratio. Canadian Natural maintains a strong balance sheet with an S&P credit rating of BBB+.

At about \$35 per share, CNQ offers a safe 4.3% yield. Analysts have an average 12-month target of \$47.80 on the stock, which represents whopping near-term upside potential of 35%!

Foolish takeaway

With [a safe yield](#) of about 4% in these solid energy names, investors don't need a lot of upside to beat the Canadian market. However, because of the market's low expectations from the energy sector, patient investors may get a surprise to the upside, as these stocks are worth so much higher than where they're trading at now.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

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2. NYSE:SU (Suncor Energy Inc.)

3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:SU (Suncor Energy Inc.)

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