2 TSX Energy Stocks That Are Bargains at Current Prices

Description

Over the past year, oil prices have been trending downward, sending many oil stocks down with them. Although the Canadian Crude Index is way up from its November low of $20, it's still down about 5% from where it was a year ago. Predictably, energy stocks have been affected by the commodity price swing; **iShares S&P/TSX Capped Energy ETF**, which tracks the sector, is down 35% from this time last year.

Market participants are right to be concerned about oil stocks. Five years after the 2014/2015 oil collapse, prices still haven't recovered to their pre-collapse highs; many oil companies are being crushed under debt they took on while assuming times would stay good. It's not a recipe for success, to put it mildly.

However, in this struggling industry, there are a few diamonds in the rough that may be worth buying. These are companies that are consistently pumping out profits, despite the decline in the price of oil, which have been unfairly beaten down in the markets. Many of these stocks now have high and growing dividends that are easily justified by their earnings. If you're looking to invest in such undervalued gems, the following are two of the best on the TSX.

Suncor Energy

Suncor Energy (TSX:SU)(NYSE:SU) is an integrated oil company that processes synthetic crude from tar sands. The company has a huge presence in Alberta, with enormous, productive assets in the Athabasca oil sands.

Weakness in the price of oil has not prevented Suncor Energy from being enormously profitable. From 2015 to 2018, the company grew its profits from $-1.9 billion to $3.2 billion, proving that the company doesn't need extremely expensive oil to turn a profit.

In its most recent quarter, Suncor Energy reported $3 billion in funds from operations, $3.4 billion in operating cash flow, and net earnings of $2.8 billion. These figures are up 10%, 40%, and 200% year over year, respectively — although the net income number includes a $1.1 billion one-time tax recovery.

Despite all of its growth, Suncor Energy trades at just 10.4 times earnings and has a dividend yield of 4.4%.

Husky Energy

Husky Energy (TSX:HSE) is an integrated energy company involved in both extracting and processing crude oil. The company extracts crude on land in Alberta and offshore in both the Atlantic region and Asia. Husky's diversified operations give it exposure to many different types of crude trading at different price points, which provides a measure of diversification and gives the company access to many different markets.

Over the years, Husky has demonstrated itself to be more than capable of growing its profits, despite volatility in the price of oil. Between 2015 and 2018, it grew its net income from $-3.8 billion to $1.4 billion, recovering admirably from the 2014/2015 collapse. In its most recent quarter, the company's net income and funds from operations came in somewhat below the same period last year; however, this downswing was due to lower production volumes and infrastructure upgrades, not lower oil. Over the longer term, the company's earnings trend is strongly positive. The stock trades at just 6.3 times earnings and has a dividend yield of 5.5%.

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