Alert: 3 Canadian Energy Stocks to Buy on the Saudi Oil Supply Shock

Description

Last weekend's oil shock caught everybody by surprise, sending energy stocks soaring, with shares of the more battered plays like **Cenovus Energy** (TSX:CVE)(NYSE:CVE) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), rising 12.1% and 12.9%, respectively, in a single trading session.

As we learn more about the attack on Saudi Arabian oil facilities, investors could continue flocking into out-of-favour oil stocks to hedge themselves against an escalating oil shock that could see the situation escalate on retaliatory moves.

The head of the NATO military alliance is "extremely concerned" about the potential for an escalation, and if this is indeed the start of an economy-shaking oil shock, energy stocks could be the "it" sector as we head into the last quarter of 2019.

Here are my favourite oil plays at this juncture:

Cenovus Energy

Cenovus Energy has been one of my favourite contrarian oil plays over the past year. It's one of the most undervalued stocks given the company's forward trajectory and the excessive pessimism that's been placed on the name for its poorly-timed market moves (hedges gone wrong) made prior to the 2014 collapse in oil prices.

Back in mid-May, when the stock was trading at $11 and change, I called Cenovus a dirt-cheap oil stock that could make investors filthy rich. I noted that a majority of the bad news was already baked into the stock (and then some) and that the odds of pipeline progress over the next five years would be a boon for the stock.

Moreover, I also mentioned Cenovus' progress on the innovative extraction front with its more efficient solvent-aided extraction techniques with the potential to separate Cenovus from the pack.

At just 0.8 times book and 0.7 times sales, Cenovus remains a dirt cheap bet, even after skyrocketing higher over the last few weeks.

Canadian Natural Resources

Canadian Natural Resources was my top pick for September, mainly due to excessive pessimism that brought the stock down to unsustainably low depths.

I didn’t see a lot going for the name, but what I did see was a ton of incredible assets (enough to crown CNQ as the new king of the oil patch), stable cash flows from integrated operations, a healthy balance sheet, and a rock-bottom valuation.

After shares popped around 13%, the stock still looks undervalued, and as the Saudi attack gets more coverage, Canadian Natural Resources could lead the upward charge, as investors shed their fears of energy names that have been out of favour for over five years now.

Suncor Energy

Suncor Energy (TSX:SU)(NYSE:SU) is Warren Buffett’s preferred way to bet on the Canadian oil patch. The balance sheet is in stellar condition, cash flows continue to support further dividend growth (while poorly-capitalized oil sands players look to shed assets and reduce their payouts), and the rich dividend (about a 4% yield) was an incentive for investors to hang onto the name through the tough times.

Similar to Canadian Natural, Suncor is a top-tier oil player that can weather the storm far better than most other energy firms out there. With shares trading at just under six times EV/EBITDA, investors are paying a bargain-basement price for stellar cash flows and massive upside in the occurrence of a black swan event, such as the recent geopolitical turmoil going on in Saudi Arabia.

Like the other two names in this list, Suncor is a must-have hedge for investors who have little to no exposure to commodities, an alternative asset that could save investors come the next bear market.

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2. NYSE:CVE (Cenovus Energy Inc.)
3. NYSE:SU (Suncor Energy Inc.)
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