



2 Top Energy Stocks to Buy Despite Weaker Crude

Description

Fears of a global recession, weak manufacturing activity, and the ongoing trade war between the U.S. and China are all weighing on the price of oil. Even the recent attacks on [Saudi Arabia's](#) oil infrastructure, which wiped out roughly half of the kingdom's production capacity, failed to lift prices for a sustained period.

The international Brent benchmark has plunged by a whopping 30% over the last year, while the North American benchmark West Texas Intermediate (WTI) is down by 28%. This sharp decline in the price of crude coupled with the increasingly poor outlook for petroleum, shouldn't deter investors from bolstering their exposure to oil and has, in fact, created an opportunity to acquire quality energy stocks at an attractive valuation.

Let's take a closer look at two oil stocks that should be considered by every investor seeking to boost their exposure to oil.

Integrated energy giant

Many investors, especially those in the U.S., tend to overlook **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) when seeking to bolster their exposure to crude. Suncor is one of North America's largest integrated oil companies and has a long history of unlocking value for investors. The integrated energy giant even demonstrated that it could profit from the deep discount that applied to the Canadian heavy oil benchmark Western Canadian Select (WCS) during the second half of 2019. That is because of its integrated business, which includes oil sands, conventional oil production, refining, as well as processing and storage operations.

Suncor has been steadily growing its oil production, despite weaker crude, which, for the second quarter 2019, soared by 21% year over year to 804,000 barrels daily. The energy major is also focused on improving the efficiency of its operations, which has seen its return on capital employed (ROCE) for the second quarter increase to 10.4%, which was 2.1% greater than the equivalent period for 2018.

Suncor's key strength is that it has the capacity to process around half of its total oil production. This

means that it can still generate considerable earnings, even when oil is weak, because lower oil prices reduce the cost of feedstock for its refineries, widening the spread that the company can generate, thereby boosting the profitability of Suncor's upstream operations.

Despite lower oil prices compared to a year earlier, Suncor's second-quarter 2019 operating earnings grew by 5% year over to \$1.3 billion, and net income of \$2.7 billion was almost two times higher than a year earlier. That can be attributed to a combination of greater efficiencies, a significant improvement in the ROCE, and the strength of its refining operations.

While investors wait for oil to rebound and boost Suncor stock, they will be rewarded by its regular and sustainable dividend yielding 4%.

Quality oil upstream oil producer

Whitecap Resources ([TSX:WCP](#)) has proven its resilience to the oil slump, which began in late 2014, retaining its [dividend](#) in a challenging operating environment, where many upstream oil producers have eliminated that payment. The driller has taken significant efforts to protect its balance sheet, including dialing back its second-half 2019 capital expenditures by 17% to \$250 million in August. That has left Whitecap's planned annual average oil production of 70,000-72,000 barrels daily unaffected and will improve free funds flow, which is now anticipated to be \$135 million.

This will improve the sustainability of Whitecap's dividend, which currently has a monster yield of 8.5% with its total payout ratio falling to 80% compared to an initially forecast 86%. It also appears that Whitecap's dividend is fully covered, even if WTI falls to as low as US\$45 per barrel, making it an attractive stock to buy for its high yield and solid growth potential once oil rebounds.

Foolish takeaway

The short-term outlook for crude remains poor, but this shouldn't deter you from adding quality oil stocks to your portfolio. It has, in fact, created an opportunity for investors to acquire quality names such as Suncor and Whitecap at attractive valuations and the ability to lock in some juicy dividend yields.

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2. TSX:SU (Suncor Energy Inc.)
3. TSX:WCP (Whitecap Resources Inc.)

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