The Oil Price Turnaround in 2020 Could Boost These 2 Stocks

Description

Analysts from **Goldman Sachs**, Bloomberg, and **JP Morgan** all expect global oil prices to rise modestly in 2020. West Texas Intermediate will trade at an average $58.50 per barrel, while Brent Crude will trade at an average $64.25 per barrel next year, both slightly higher than the average in 2019.

However, those prices are still a long way from the all-time highs set in 2013-14. The broad sentiment for the global energy market remains bearish, which means any positive surprises could unleash value for patient investors. Here are two Canadian energy stocks that could jump rapidly if the price of oil climbs higher than expected this year.

Oil producer

Calgary-based **Vermilion Energy** (TSX:VET)(NYSE:VET) has had a tough year. The stock is down 22.5% over the past 12 months and 63% over the past five years. However, the company has maintained steady earnings and dividends throughout, which means the stock trades at roughly 9.6 times earnings per share and offers a 12.9% dividend yield at the moment.

Over the past few years, the company has been securing its business by self-funding overseas expansions to diversify income streams and keeping debt low. As a result, free cash flow has climbed every year since 2016 and 49% of free cash is now generated outside North America.

A turnaround in the oil price could quickly push this stock back to its long-term average valuation. This could be why most of the 17 Wall Street analysts that cover this stock have rated it a “hold” and have set the median price target at $17.49 — 7.5% higher than the current stock price.

Coupled with the 12.9% dividend yield, this could be an excellent contrarian bet for investors in 2020.

Integrated energy provider

Husky Energy (TSX:HSE) is similarly well positioned. The stock has already rebounded from its all-time low in 2019, yet it offers an attractive 4.7% dividend yield and trades at roughly 9.5 trailing earnings.

Husky's integrated business model (upstream and downstream) means a higher oil price is the perfect catalyst for its stock. The stock price surged 61% from 2011 to 2014 alongside the market price for crude oil. Now, further appreciation could unleash similar value in 2020.

In fact, the stock's upside could be as much as 78.5% if it simply rises to book value. Currently, the stock trades at just 56% of book value per share. Meanwhile, the dividend-payout ratio is just as modest at 45%. In other words, Husky is an undervalued bet, even with the current market price of crude oil.

Over the past year, analysts have been speculating if the company could go private to close the gap between its market price and underlying value. If a wealthy investor, like shareholder Hong Kong billionaire Li Ka-shing, initiates such a buyout, patient shareholders could be rewarded with a hefty premium.

Investors seeking steady dividend growth with some potential for capital gains should certainly add this one to their watch list for 2020.

Bottom line

Shareholder wealth has been incinerated over the past five years in the oil market. However, the dust seems to have settled in 2019, and experts expect a steady recovery in 2020. A turnaround in crude could unlock value in stocks like Husky and Vermilion.

If you're a contrarian investor, the oil market is certainly ripe with opportunities.

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Date
2025/06/29
Date Created
2020/01/02
Author
vraisinghani