



## No, You Should Not Totally Shun TSX Energy Stocks Right Now!

### Description

This year has been an unpleasant one for energy investors. Falling oil and gas prices have driven energy stocks to all-time lows. Canadian energy stocks have tumbled in the range of 50-80% in just the last couple of months. However, the collapse is still not over. The energy sector continues to look weak, and stocks could go down more in the coming months.

### Volatile oil and weak energy stocks

On its part in the oil price war, Saudi Arabia will start pumping more oil from April, fueling the supply glut in an already oversupplied market. Lockdowns in many countries driven by the coronavirus outbreak have already dented the demand for crude oil. Thus, this double whammy will likely further weigh on the energy sector in the near term.

Crude oil is already trading at around \$20 — its multi-decade low levels. Canadian oil prices have been below US\$10 per barrel. The current scenario will further dent companies with poor liquidity and debt profiles.

Some of the biggest oil companies in Canada, such as **Cenovus Energy** and **Husky Energy** stocks, were notably weak recently. These two have fallen 80% and 65% since last month, respectively. Both have fallen below \$5 levels.

However, some of the energy names are worth considering at the moment. I think we are approaching the bottom, and some oil stocks will soon start their recovery. Just as their fall was sharp, the recovery will be even sharper.

### Will crude oil rebound?

In my view, oil prices might not sustain longer at such low levels. No oil producer in the world has a breakeven price close to these levels. Thus, either through production cuts or through sanctions, crude oil prices could reach respectable levels in the short to medium term.

The demand side of the equation remains weak amid lockdowns and travel restrictions. Experts are estimating 20% lower demand while the pandemic dominates. However, as the global curve of COVID-19 deaths flattens in the coming months, demand could again well exceed its normal levels.

## Suncor Energy: Top energy stock in Canada

Canada's biggest integrated energy company, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), is an attractive pick at the moment. Its large scale and presence throughout the energy supply chain make it look relatively less risky compared to upstream companies.

Weak crude oil prices dent margins on the production side, but they minimize the input costs for the downstream operations. The legendary investor Warren Buffett holds over \$300 million in Suncor Energy.

## Attractive valuation and dividends

Suncor Energy stock has fallen more than 60% since last month when the virus started weighing on markets. The stock last traded at these levels in 2004. The selloff brings its forward price-to-earnings ratio to approximately 10 times. This is significantly cheaper compared to its average historical valuation of 19 times. Notably, this implies that the stock is trading at a large discount and has a potential for a bounce back.

Despite its recently announced production cuts and reduced capital spending for the year, Suncor Energy remains an [attractive investment proposition](#). Its strong balance sheet will likely get it going through these challenging times. Suncor stock currently yields above 10%. It also increased payouts in the last financial crisis in 2008, and investors can count on it for dividends.

Apart from Suncor Energy, top TSX stock **Canadian Natural Resources** also looks attractive. It is one of the [lowest-cost producers in the country with an unmatched set of oil sand assets](#).

In my view, energy stocks might keep trading weak in the near term. However, they could bottom out soon. I am not recommending investors time the market and look for bottom-fishing opportunities. But these stocks could reap significant gains in the long term. Investors could spread out their buying over the next few months to make the most of this opportunity. As the famous saying of Chinese philosopher Sun Tzu goes, "In the midst of chaos, there is also opportunity."

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