



3 Top Oil Stocks Set Up for a Massive Recovery

Description

2020 has been a painful year for TSX oil stocks. Oil has been hit by a two-edged sword: a plunge in demand due to the coronavirus crisis, and a supply war between Saudi Arabia and Russia. As a result, even the best oil stocks have plummeted. Yet signs of a recovery are apparent. Maybe now is the time to get back in.

Here are two bits of advice if you are interested in buying the energy sector. First, buy cautiously. Oil stocks are price takers, not price makers. Even the best-quality producers have to take the price they are given on the day (unless they are hedged). Oil prices will stay depressed as long as commuting, travel, and industry are limited by COVID-19 restrictions.

Second, buy the highest-quality oil stocks. They should have a low cost of production, long reserve life, and strong balance sheets. Below are three best-in-class oil, gas, and integrated energy stocks that are solid buys for speculating in the energy sector today.

Buy oil stocks with no debt

The first oil stock is **Parex Resources** ([TSX:PXT](#)). Parex's operations are located completely in Colombia. Fortunately, 100% of its oil is sold at Brent Crude pricing, so it garners the highest market pricing (around US\$20/bbl).

Parex's cost of production per barrel is very low — somewhere between US\$20 and \$30/bbl. Despite historic oil lows, the company should still be breaking even now. That is a heck of a lot better than many Canadian peers who are paying to sell their oil.

Parex is especially attractive because it has zero debt and [is sitting on a cushy \\$390 million cash reserve](#). Lean operations and a hefty bank account mean Parex can survive this crisis and thrive into the future. I wish all TSX oil stocks were this good.

Buy the biggest natural gas producers

Tourmaline Oil ([TSX:TOU](#)) is Canada's largest [natural gas producer](#) and Canada's fifth-largest midstream gas processor. The depressed oil environment actually plays well for Tourmaline. Distressed U.S. shale companies, who produce significant amounts of ancillary natural gas, cannot continue drilling or even operating at these prices. As a result, natural gas supply could begin to plunge and long-term pricing could improve.

Considering this, Tourmaline has actually rebounded quite quickly from its March lows. Yet, it is still cheap. It has significant up-stream and midstream processing assets, which it will spin off sometime this year or early next year. Those assets should demand a significantly higher multiple than presently valued. The spinoff would be an accretive way to reward shareholders and raise capital simultaneously.

Overall, Tourmaline is one of the best-capitalized, lowest-levered, and most diversified Canadian natural gas producers. In this environment, quality matters, so Tourmaline is a good bet here.

Buy the best oil stocks

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) is one of the best bets to survive this market downturn. As a large, integrated energy company, Suncor is an oil producer, refiner, and a retailer. It has very long-life operations (+30 years of reserves) and produces oil at a very low cost: somewhere between US\$17 and \$25/bbl. Although Suncor's production operations are probably taking a loss right now, it can make up the difference in its refining and retail gasoline operations.

Summer is coming. Canadians will be eager to swap their homes for campers/cabins as crisis restrictions wear off. Consequently, summertime fuel demand should be a welcome boost for Suncor's refining and retail businesses.

Overall, Suncor has a good balance sheet with \$6.7 billion of liquidity, zero debt maturities in 2020, and only \$1.4 billion of debt maturities in 2021. I believe, as long as the COVID-19 crisis recedes before autumn, the company should maintain its hefty 8.5% dividend yield. While this is a guess at best, I would take the risk, lock in that bulky yield, and hope oil markets recover sooner than expected.

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1. Coronavirus
2. Energy Stocks
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1. NYSE:SU (Suncor Energy Inc.)
2. TSX:PXT (PAREX RESOURCES INC)

3. TSX:SU (Suncor Energy Inc.)
4. TSX:TOU (Tourmaline Oil Corp.)

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