2 Canadian Giants Doubled Since the COVID-19 Crash — Should You Buy?

Description

It has been a double whammy for **TSX** energy stocks this year. Almost all oil producers were crushed by the surging supply and the declining demand due to the pandemic. Trimming dividends and capital expenses became the norm this year. Despite all this gloom, many Canadian energy bigwigs have almost doubled since the COVID-19 crash in March.

Why TSX energy stocks surged since the COVID-19 crash

TSX energy giant **Cenovus Energy** (TSX:CVE)(NYSE:CVE) has soared 196% since its 52-week low in March. Peer **Husky Energy** (TSX:HSE) stock is up approximately 85% in the same duration.

So, what investors should really do after such a steep rally? Why have the stocks soared despite a bleaker outlook for the energy segment? Let's take a look.

The COVID-19 crash pushed these stocks close to their respective multi-decade low levels. Thus, some relief was expected, which was also backed by a big rally in crude oil in the last two months.

Outlook remains gloomy

However, investors should note that the rally does not mean that the worst is over. Volatile crude oil prices will continue to weigh on these oil producers.

Even if crude oil has clocked May 2020 as one of the best months on record, the breakeven prices for Cenovus and Husky are still far from the current levels, which ultimately means a significant pressure on their bottom lines and even more volatile stocks!

Analysts expect notable losses for Cenovus and Husky for the full year 2020. Husky trimmed dividends by 90% while Cenovus suspended payouts. Investors who have been dependent on their quarterly payouts must have crushed. However, many energy companies did the same as cash retention became vital.

As their balance sheets replenish again, these energy companies should restart with their normal dividend course, which might not happen as soon as next year.

On the liquidity front, Husky and Cenovus look well placed to weather the crisis. I don't think the problem is about survival. However, the uncertainty around makes them comparatively risky bets for investors.

Many see these stocks attractively valued at the moment. However, with so much uncertainty weighing on earnings, the upside from here could be limited.

One top stock in the Canadian energy space

If you are looking to bet on the Canadian energy space, integrated oil giant **Suncor Energy** (TSX:SU)(NYSE:SU) is a more fitting bet. The stock has surged more than 70% since the COVID-19 crash.

Notably, Suncor's large-scale downstream operations act as an effective hedge when the crude oil trades lower. Thus, when the upstream segment underperforms, it more or less offset by the improvement in its downstream segment.

While it trimmed dividends by 55% last month, it still offers a reasonable yield of 3.6%. Suncor stock is still trading 40% lower to its pre-COVID-19 levels.

Volatile crude oil prices will weigh on Suncor Energy stock as well. However, Suncor is a more favourable bet for long-term investors due to its presence in the entire energy supply chain and its stable dividends.

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