TFSA Investors: An Energy Rebound Is Coming

Description

It's been a roller coaster for the energy industry in the last few months. West Texas Intermediate (WTI) crude oil drop into a negative territory of US-$37 for the first time in its history last month. The future looked awful for energy companies and stocks. But then May hit — with an energy rebound.

Investors have become optimistic as a turnaround happened in the broader markets. Alongside that came the end of the Saudi Arabia and Russia price war, with the Organization of the Petroleum Exporting Countries (OPEC) issuing production cuts of 9.7 million barrels per day.

WTI jumped to US$35.49 by the end of May, a jump of over 200%, with the bigger energy companies jumping in share price.

Energy rebound underway?

The recent behaviour in the markets has some analysts predicting an energy rebound that's only just getting started. In fact, given the incredibly low value of many oil and gas industries, it could be a bull market for those willing to get in cheap. Some stocks have already doubled in the last month, and more surges are likely to happen through 2021.

What it stems from are the production cuts. Supply is going to be less than demand from OPEC's cuts in an attempt to boost prices. On top of this move is any (and I mean *any*) positive news on the COVID-19 front.

Should a vaccine or treatment be available, restrictions on production would pick up and oil and gas could start moving again. This could spark another energy rebound, with some analysts predicting to see big production by December. However, many companies might hold onto that oil until WTI hits US$50 or higher.

What to buy?

So as growth continues, should you go with the bigger companies seeing some strength? Many analysts actually say no. If you're really hoping to make some huge returns during an energy rebound, it's probably better to go with small or mid-cap companies, ideally with a low cost structure.

These companies have cut back significantly, so production would mean a big win for these companies and the share price.

Of course, many people look at the bigger companies because they offer dividends. But if an energy rebound is happening, it's likely better to look for significant growth rather than dividends. Dividends have been cut across the board, so you're far more likely to see cash come in from growth, with dividends coming once the company start producing.

In that case, I would recommend mid-cap, low-cost energy producer **Seven Generations Energy Ltd.** (TSX:VII). The company fell 87% from peak to trough during the market crash, and has since come back up 260% to $4.15 per share at writing. While the company doesn't offer dividends, it definitely offers significant growth.

The company has put all its energy into lowering costs even further, as it recently missed analysts' predictions during its earnings report. But analysts are bullish about this stock's near future.

So if you're looking for some quick growth for your TFSA during an energy rebound, I would go with Seven Generations and hold on for at least the next year before making any quick decisions.

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