3 TSX Stocks to Buy Before the Next Oil Rally

Description

Oil prices have been steadily rallying over June — which may be a boon for **TSX** energy stocks. As society slowly emerges from the COVID-19 pandemic crisis, demand for energy is slowly starting to return. *BNN Bloomberg* reported on Sunday that oil traders are increasingly optimistic as countries like China, Japan, Germany, and France are recovering to near pre-pandemic levels of demand.

Oil is making a comeback

On Friday, West Texas Intermediate (WTI) future rose above US$40 a barrel. Generally, markets are better balanced and could even start seeing some upside.

As the world slowly returns back to normal, demand should continue to return. This could be a tailwind that triggers a nice rebound for TSX energy stocks.

Here are three compelling TSX stocks that could start seeing significant gains from here.

This TSX energy stock has no debt and lots of cash

The first stock to consider buying before a rally in oil is **Parex Resources**. It is a TSX-listed stock that operates 100% in Colombia. The company has zero debt and around $330 million of cash on its balance sheet.

Parex has a very low cost of production and garners a premium from Brent Crude pricing. It produces positive funds from operation at around US$30 per barrel, so it's producing cash. Overall, it is a very well-run company that is very stable and could see a nice rebound from here.

This TSX oil stock pays a great dividend

The next TSX oil stock to check out is **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ). CNQ is one of Canada's largest diversified energy producers with a mix of oil sands, heavy crude, natural gas, and light oil production operations. It has long-life, low decline operations have an average reserve life of 27 years.

It can produce oil at a very low sustaining cost. At US$25 WTI it operationally breaks even; any price above US$31 WTI, CNQ produces positive free cash flow. Unlike **Suncor**, CNQ has remained committed to its dividend, which is yielding over 7%, today.

CNQ has a strong balance sheet with $1.1 billion of cash and $4 billion of available liquidity. At today's prices it can certainly afford to sustain its dividend.

Although it has a significant amount of debt, its long-term debt per net proved reserves is among the lowest of its peers. This TSX oil stock is just a really great way to get a nice yield and enjoy a decent 15% to 20% upside from here.

Natural gas has some upside in 2021

Tourmaline Oil (TSX:TOU) is another solid TSX energy stock. Despite its name, it is actually Canada's largest producer of natural gas. It is attractive for a few reasons. First, this year it is planning to spin-off its premium-valued midstream assets into a new listed company, which should unlock some value and liquidity for shareholders.

Second, natural gas prices are trading near multi-years' lows right now. Yet, with pressured U.S. shale producers reducing or stopping drilling/production, natural gas supply could significantly fall over this year. Restricted supply could result in significantly higher prices in 2021.

Finally, among its peers, Tourmaline has the lowest leverage, a strong balance sheet, the lowest cost of production, and a great ~4% dividend. This TSX stock has a great ability to survive in this low price environment and thrive heading into next year.

The Foolish takeaway

The only way to make money in TSX oil stocks is to act *before* the rest of the market. While oil stocks are riskier investments, these stocks are trading at historically low valuations.

They are all making money now, and it's a great time to buy in for longer-term future gains.

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3. TSX:TOU (Tourmaline Oil Corp.)

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Date
2025/08/26
Date Created
2020/06/22
Author
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