2 Wildcard TSX Energy Stocks That Could Gain Up to 60% From Current Prices

Description

Energy stocks are not exactly the hottest thing in the market right now. Oil started taking a beating in February this year and then COVID-19 hit, making the situation even worse. It completely destroyed demand for fuel and the oil market has been heavily oversupplied as international trade dropped off a cliff.

Many countries have reached storage limits. Consequently, oil prices haven't been able to gather momentum for recovery.

While oil prices bottomed out in April, it goes without saying that the situation is still full of challenges and will require smart moves by companies to emerge as winners on the other side.

What to expect from oil stocks?

There are two scenarios that can play out. One likely scenario is that demand will start to recover as the pandemic peters off or the world learns to live with it. This would mean that demand would rise to pre-pandemic levels and start growing by the end of 2021.

With companies across the board cutting down capital expenditure, pausing production, and OPEC managing supply, this could mean the amount of inventory across the world will come down too, leading to a much better pricing climate for oil companies.

The other, less likely scenario is that the world opens up much more slowly and we witness structural changes in consumption patterns. This would mean oil prices staying depressed for much longer and storage levels remaining the same.

While many companies have struggled during this crisis, there are a couple of stocks in this space that have hung on in there — and contrarian investors could stand to gain a lot from these stocks in the near future.

This TSX energy stock can gain 57%

Enerplus Corporation's (TSX:ERF) has its oil and natural gas properties in North Dakota, Montana, Colorado, and Pennsylvania in the United States, and Alberta, British Columbia, and Saskatchewan in Canada. The company reduced production in April and shut-in more production in May.

In total, Enerplus estimates that approximately 25% of its liquids volumes are curtailed. The company doesn't plan on any further cuts for the second quarter.

Its first-quarter adjusted funds flow from operations was $113.2 million, while adjusted net income was $21.1 million. Its net debt to adjusted funds flow ratio was 0.8 times at quarter-end, and the company is in a strong position financially with cash of $142 million and an undrawn $600 million bank credit facility. The company has $82 million debt that matures in 2020 and plans to pay it off using cash in hand.

The stock trades at $3.21 right now, and analysts have a target of $5.12 on it, an upside of over 57%. The company has a forward yield of over 3%, which adds to the buying opportunity.

ARC Resources (TSX:ARX) surprised markets when it announced a dividend increase of 200% payable on July 15, 2020. This could be viewed as a positive sign as ARC was one of the first companies to cut its dividend in March from $0.05 to $0.02. Does this massive increase in dividend mean the company thinks the tide is shifting?

Analysts have given the stock a target of $7.59, up almost 60% from its current level of $4.71.

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