BUY ALERT: 2 Cheap Energy Stocks to Watch Amid the Oil Price Recovery

Description

After witnessing its worst fall in decades earlier this year, oil prices have recently resumed recovery. Oil recovered for four consecutive months by August, but it started September on a weak note. In the first week of September, U.S. WTI crude oil fell by 8% and extended these losses with another more than 5% drop in the second week. Nonetheless, it has risen by over 7% this week.

A consistent rise in oil prices could benefit many Canadian energy companies by boosting their top line and profitability. Let's look at three cheap TSX stocks that I find attractive amid the ongoing oil recovery.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is a Calgary-based energy company. The company makes most of its revenue from oil sands mining, exploration, and production. In 2019, about 92% of its total revenue came from North America, while the remaining 8% was from its North Sea operations.

Despite the pandemic, Canadian Natural Resources currently has a quarterly revenue growth rate of 48.4% year over year. Like many other companies in the energy industry, it also has solid profit margins. However, its margin fell sharply in the last quarter. In the second quarter of 2020, the company reported an adjusted EBITDA margin of nearly 19.6% — much lower than 27.2% in the previous quarter and 52.2% a year ago.

Rising oil prices could drive a sharp recovery in its profitability — leading to a rally in CNQ stock price in the coming quarters.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is my all-time favourite Canadian energy firm. The company has a well-diversified business portfolio in energy generation, transportation, and distribution segments. Last year, the company's 60% revenue came from the U.S., while the remaining 40% came from its home market.

While Enbridge's revenue tanked sharply in the last quarter, it still maintained an impressive profit margin. In Q2 2020, its adjusted net profit margin was at 14.3% as compared to 10.2% a year ago.

Amid the ongoing pandemic, only a handful of companies are able to maintain their full-year guidance, and Enbridge is one of them. In July, the company reaffirmed its 2020 financial guidance. This guidance was primarily based on its anticipation of a gradual recovery in energy demand "as travel, and border restrictions are lifted, and mobility returns to North America."

Foolish takeaway

Due to COVID-19, the global energy demand suddenly crashed, which triggered a massive sell-off in oil prices as well as in energy stocks earlier this year. But the gradual rising oil demand supports the ongoing recovery in energy demand — in line with Enbridge's expectations.

On a year-to-date basis, Canadian Natural Resources stock has lost 44%, while Enbridge stock is trading with nearly 21% losses.

In the next few months, we can expect more countries to lift the restrictions on domestic and international air travel — which would give another big boost to the oil demand. These factors could fuel a rally in energy stocks in the coming quarters.

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