2 Canadian Oil Stocks That Could Double in a Post-Pandemic World

Description

With the lights turned out on the oil patch, nobody is even thinking about another oil boom right now. Some folks, including *Mad Money* host Jim Cramer, are incredibly bearish on fossil fuels that he believes they're in their "death knell" phase. With big-league oil kings like **Suncor Energy** (TSX:SU)(NYSE:SU) slashing their dividends, it's discomforting to know that even the best-in-breed integrated players are unable to insulate shareholders from the hailstorm into Alberta's ailing oil patch.

While fossil fuels are on their way out in favour of renewable, green sources of energy, I'm in the belief that the transition to sustainable power will take many years, if not decades, and that the financially flexible, diversified oil companies still have plenty of gas left in the tank.

Moreover, another oil boom can't be ruled out, as renewables are unlikely to fill the need should there be an unexpected demand shock within the next decade.

Is there one more oil boom left in the tank?

Nobody knows. But I wouldn't rule it out over the next decade. There are far too many uncertainties to predict where oil is headed over the near- to medium-term.

With the latest pandemic-induced oil plunge, there's no doubt that fossil fuel firms have been hit with the perfect storm of headwinds. Many junior unconventional oil producers could stand to crumble under the pressure. Still, large-cap firms Suncor and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) are in a spot to snatch up assets at bargain-basement prices amid this unprecedented crisis.

If you're willing to take on short- to medium-term pain for a shot at outsized long-term gains, the valuations across fossil fuel behemoths like Suncor and Canadian Natural are too cheap to pass up at this juncture.

A tale of two behemoths

Suncor is battening down the hatches to better survive what could be many further plunges in the price of oil. After slashing its dividend by 55%, the company now boasts a Fort-Knox-like balance sheet that will allow it to survive a worst-case scenario that could bring forth a lower-for-longer type of oil price environment.

On the other hand, Canadian Natural is already taking advantage of the hailstorm in the oil patch. Rather than bringing its dividend to the chopping block alongside Suncor, the shareholder-friendly company has opted to go with a counter-cyclical strategy to better weather the storm. Canadian Natural recently acquired natural gas player Painted Pony Energy for $455 million; a deal thought I thought was one of the biggest steals of the year.

"Only time will tell if Canadian Natural's counter-cyclical 'hedging' M&A approach will be better than Suncor's more prudent balance sheet-bolstering moves," I wrote in a prior piece. "The move will allow Canadian Natural to better insulate its shareholders from excessive volatility in the oil patch. At the time of writing, CNQ shares trade at 0.86 times book value, making them a solid bet for long-term investors who want to give themselves a raise with CNQ's reasonably well-covered dividend."

Foolish takeaway

Oil won't be this weak forever, though. Come 2022, the worst of the pandemic will hopefully be in the rear-view mirror, and oil prices could make a modest move back to normalized levels, with West Texas Intermediate around US$55. In such a scenario, both Suncor, which trades at a near 30% discount to book value and Canadian Natural, could find themselves on a sustained rally to much higher levels.

Yes, the headwinds are profound. But there's deep value to be had in the energy sector right now. As someone wise once said, "it's always darkest before dawn."

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