



Oil Surges: 3 Energy Stocks to Buy Before They Correct to the Upside

Description

Energy stocks took a bounce on Thursday following WTI's unexpected bounce above US\$41 after pulling back as low as US\$37 in recent weeks. **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)), **Cenovus Energy** ([TSX:CVE](#))([NYSE:CVE](#)), and **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) soared 6.6%, 6.6%, and 4.7%, respectively, on the day.

With an environmentally friendly Joe Biden leading in the polls over U.S. president Donald Trump, it seems as though the worst has already been baked into Canada's top energy stocks. And if the actual result defies the polls, oil stocks could be due for a huge bounce at the expense of the red-hot renewables, which have been picking up traction in recent weeks.

Canadian Natural Resources

Canadian Natural Resources is the most shareholder-friendly oil stock on this list. More recently, CNQ surpassed its top peer Suncor in market cap, snatching the title of king of the Canadian oil patch. With a bountiful (and likely safe) 7.2%-yielding dividend, there's no question that many former Suncor investors had jumped ship following Suncor's unprecedented 55% dividend reduction.

With a counter-cyclical approach to weathering the current energy crisis, Canadian Natural definitely seems like a more hopeful play than Suncor, which has been slashing budgets, dividends, and jobs to bolster its balance sheet for what could be new lows for the oil patch.

After scooping up Painted Pony Energy, Canadian Natural walked away with the biggest steal of the year. Although no dividend in the oil patch is truly safe, I think Canadian Natural's is among the safest on the **TSX Index**. Management has demonstrated it's ready and willing to swim to great lengths to insulate investors from profound industry headwinds.

Cenovus Energy

Cenovus Energy is the riskiest play on this list, but it also has the most upside potential should we be

in for one last oil boom. The company has intriguing solvent-aided extraction processes that could improve the longer-term economics of its business. However, in the near to medium term, the main focus will be drawn on Cenovus's financial flexibility, as the tides continue going out on the industry.

With WTI prices hovering around US\$40, Cenovus skates on a fine line between cash flow generation and steep losses. Another pullback in oil prices to the mid-US\$30 levels would hit Cenovus hard. Fortunately, the company has a pretty solid balance sheet that should allow it to escape this crisis under its own power. Cenovus has a stellar liquidity position, with a 1.23 current ratio that will allow it to continue rolling with the punches.

With shares trading at a ridiculous 0.4 times book value, I'd say shares of Cenovus are simply too cheap to ignore, making the name a top pick for energy investors looking to double their money in a bull-case scenario. If Donald Trump wins the U.S. presidential election in under a month's time, Cenovus is a name that could post big gains for contrarians who stuck by the name through the worst storm the oil patch has seen to date.

Suncor Energy

In a prior piece, I'd noted the likelihood that the worst was almost over and that [SU shares were likely near a bottom](#) at around \$15 and change, given the strong technical support in the mid-teens. With shares on the bounce back, it seems as though Suncor stock won't be looking back.

On October 5, Fool Vineet Kulkarni noted that [Suncor could have more downside](#) around the same time I urged investors to buy the stock as it bottomed out:

"Along with the impact on its bottom line, management commentary will be an important indicator for investors. In September, Suncor Energy trimmed its production guidance for 2020 on the back of a fire at its Base Plant facility. So, in a nutshell, Suncor Energy is undoubtedly grappled with challenges, and the stock could see further downside." wrote Kulkarni.

While there is undoubtedly a lot of baggage with Suncor, one has to draw the line somewhere. With a near 30% discount to book value, I think shares are beyond undervalued, given its solid integrated businesses and its rock-solid balance sheet. Warren Buffett likes Suncor for a reason: it's a quality business that's just too cheap to ignore. As such, Suncor remains a strong buy in my books.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:CVE (Cenovus Energy Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:CVE (Cenovus Energy Inc.)

6. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/09/13

Date Created

2020/10/09

Author

joefrenette

default watermark

default watermark