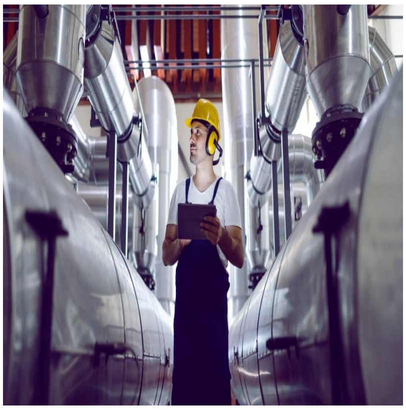

TSX Energy Stocks Still Have Steam Left: What’s Your Recovery Pick?

Description

TSX stocks at large soared 10%, while energy stocks have gained more than 30% so far this month. While stock markets have comparatively calmed a bit on the vaccine news recently, TSX energy stocks are still bouncing on the same.

It is quite evident that the beleaguered energy sector has shown some remarkable recovery in the last few weeks. Notably, energy stocks will likely continue to soar higher, even if the broader markets even out in the short term.

TSX energy stocks rallied in November

Top integrated giant **Suncor Energy** (TSX:SU)(NYSE:SU) stock fell to its 15-year lows in September. The vaccine news came as a big relief for energy investors, and the stock exhibited strong recovery recently. SU stock is up more than 40% so far in November.

Shares of the top midstream energy company **Enbridge** (TSX:ENB)(NYSE:ENB) are up 12% in the same period. The underperformance of Enbridge stock is evident as it is comparatively less correlated with the broader energy sector.

Stocks like Enbridge have lower exposure to volatile oil and gas. Thus, their underlying lower risk enables relatively lower returns.

Energy stocks have been strongly out of favour for investors over the past few years. However, the worst could already be over for the oil and gas industry in Q2. Demand-supply concerns shoved crude oil in the negative territory in April.

However, with at least three vaccines in the race so far, energy investors may have started seeing the light at the end of the tunnel.

Is vaccine success the beginning of the pandemic’s end?

Although mass distribution of the vaccine is expected to take time, one can expect things to start normalizing in the second half of 2021. The Canadian government has pre-ordered millions of dosages and is also working on setting up the necessary infrastructure.

Interestingly, the financials of Canadian energy companies like Suncor could notably improve next year as mobility comes back to normal.

One important factor that could continue to push Canadian energy stocks higher is their discounted valuation. Energy stocks were so beaten-down during the pandemic that Suncor Energy stock is still trading 50% lower to its pre-pandemic lows.

From the valuation standpoint as well, the stock is trading at a price-to-book value of 0.9x, much lower than peers.

Valuation and dividends

At the same time, Enbridge is trading at a valuation multiple of 1.2 times. Even though Enbridge looks expensive against Suncor, it looks attractively priced when compared to its historical average.

However, the relative premium of Enbridge stock is quite justified because of its higher dividend yield. It offers handsome dividends that yield 8.5% at the moment. Suncor, in comparison, yields 4.2%.

Suncor effectively managed its costs by cutting spending and dividends this year. Long-term shareholders might have felt the pinch this year but will benefit in the long term.

Once the demand for crude oil gets back to normal, Suncor Energy will be one of the Canadian giants that will benefit substantially. Its extensive refining and retail operations should fuel a relatively faster recovery compared to peers.

Perhaps that’s why the legendary investor Warren Buffett kept adding Suncor Energy stock amid the pandemic.

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