



Energy Stocks at Big Discount: Where to Invest \$1,000 for 2021

Description

The upward move in most of the **TSX**-listed stocks continues, thanks to the investors' optimism over vaccine distribution in 2021 and expected acceleration in the pace of economic recovery. While we witnessed strong buying in equities over the past couple of months, energy companies continue to offer a big discount.

Here we'll discuss three energy stocks trading at a good discount from their pre-pandemic levels and could outperform the broader markets with an improvement in demand in 2021.

Suncor Energy

Shares of **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) recovered a significant amount of losses over the past month. However, it's still [trading at a discount](#) of about 47% since the beginning of this year. While continued uncertainty, uneven economic recovery, and large global inventory could limit the upside in crude oil prices in 2021, the uptick in economic activities is likely to give a significant boost to Suncor Energy stock.

With the normalization in demand and its low cost base, Suncor Energy could deliver improved profitability in 2021. Meanwhile, its integrated business model and long-life assets provide a competitive advantage to Suncor to capitalize on the gradual uptick in demand.

Apart from trading at a discount, Suncor Energy stock offers a decent dividend yield of 4.0%.

Pembina Pipeline

While **Pembina Pipeline** ([TSX:PPL](#))([NYSE:PBA](#)) stock recovered sharply from its lows, it's still down over 30% year to date. As weak energy demand and supply glut weighed on energy stocks, including Pembina Pipeline, an expected uptick in economic activities in 2021 could lead to a recovery rally.

Notably, the pipeline company runs a low-risk business diversified across multiple commodities. Its business is highly contracted and generates robust fee-based cash flows, which supports its dividend payouts.

Despite the challenges from the pandemic, Pembina expects its fee-based contracts to account for over 90% of its adjusted EBITDA in 2020. Moreover, the company expects to sustain the ratio at 80% in the future.

The company's resilient cash flow and low payout ratio enable it to boost investors' returns through consistent dividend payments. Pembina has paid dividends worth \$9 billion since inception (1997). Meanwhile, it has increased at a compound annual growth rate (CAGR) of 6.5% in the last five years and currently offers a high yield of 8.2%.

Besides its high yield, Pembina Pipeline stock trades at a forward EV/EBITDA multiple of 9.2, which is lower than its peer group average and offers excellent value at the current levels.

TC Energy

TC Energy ([TSX:TRP](#))([NYSE:TRP](#)) stock is down about 21% this year. However, investors should note that TC Energy's business remains relatively immune to the short-term volatility in the commodity price and volume.

The energy infrastructure company derives most of its earnings from assets that are either regulated or are backed by long-term contracts. Notably, its high-quality assets saw utilization rates that were at par with the pre-pandemic levels.

Thanks to its low-risk business and robust cash flows, TC Energy has boosted its shareholders' returns through [higher dividend payments](#). The pipeline company has increased its dividends at a CAGR of 7% since 2000. Meanwhile, it projects an 8-10% growth in it during 2021.

TC Energy's low valuation, stable business, and high yield of 6.2% make it an attractive investment option for 2021.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:TRP (Tc Energy)
4. TSX:PPL (Pembina Pipeline Corporation)
5. TSX:SU (Suncor Energy Inc.)
6. TSX:TRP (TC Energy Corporation)

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