Top Canadian Energy Stocks Set for Monumental Returns in 2021

Description

It has been a tough few years for Canadian energy stocks. There are so many fundamental, political, and economic reasons why energy investments have suffered.

Frankly, it is one space most investors should probably avoid. Generally, energy producers are price takers, not price makers. They have very limited control over the price they receive on the market. Consequently, making business and investment decisions is always a bit of a gamble.

Yet, after hitting near zero crude prices last year, energy stocks are still lagging near the bottom of their valuation range. While green energy, clean-tech, and electric vehicles are certainly taking market share out of oil demand, society (especially in the developing world) is going to rely on oil for longer than most are willing to admit.

These Canadian energy stocks are lean, cash flow machines

Likewise, if anything, the pandemic crisis has forced the best Canadian energy stocks to become leaner, more focused, and better capitalized. Consequently, the risk-reward trade-off for the immediate future looks reasonably attractive.

Many oil stocks are now cash-cows, producing significant amounts of free cash flow. This can go to reduce or eliminate debt, buyback stock, and/or pay out increased dividends. Here are two top Canadian energy stocks I would be willing to bet a small piece of my portfolio on today.

A safe dividend stock in the Canadian energy sector

Pembina Pipeline (TSX:PPL)(NYSE:PPL) is actually not an oil producer. It owns and operatesmission-critical oil and gas collection, processing, and transportation infrastructure in Western Canadaand the United States. 95% of its revenues come from fee-for-service or take-or-pay contracts to arelatively high grade of counterparties (75% are investment grade, or secured). The company isessentially a toll road on Western Canadian oil production.

Over the past 10 years, the company has grown earnings per share, adjusted EBITDA per share, and dividend per share by a CAGR of 9.3%, 13%, and 4.2%, respectively. Due to the pandemic, Pembina reduced its short-term capital expenditures. Consequently, it is set to produce significant free cash flows that will go to reducing debt and buying back shares.

Today, the stock pays a great 7.43% dividend that is covered by a safe payout ratio of only 60%. For a relatively safe, income-focused play on a recovery in oil, this is one top Canadian stock to own.

The biggest and perhaps the best

Another top Canadian energy stock to own has to be **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ). In terms of size, quality, and life of assets, this has to be among one of the top energy players in North America (if not the world). Of the majority of super-majors, CNQ was one of the only stocks to maintain its dividend in 2020. Despite a nice run up since the March market crash, the stock still yields an attractive 5.7% today.

CNQ has a very low cash flow breakeven price of US$31/bbl WTI. At any price above that, the company is producing free cash flow to pay out dividends, lower debt, and buy back shares. At around $50 WTI, this stock produces a hearty 16% free cash flow yield. Management believes that could hit 20% in 2021.

The company has a very manageable amount of debt. Management believes that could drop to as little as 2.3 times debt to adjusted EBITDA by year-end. Given this pace, it won’t be long before the company is debt free. Just imagine the free cash flow yield when the company has no more interest expenses!

With all this in mind, this top Canadian energy stock is a relatively low-risk, high-reward play on a recovery in energy this year.

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robbybrown