2 of the Best Canadian Stocks on the TSX Index to Buy Today

Description

Driven higher by the recent boom in oil prices (WTI now finds itself in the mid-US$60s), the **TSX Index** is running strong again. As more jabs are given in arms and COVID-19 abates worldwide, I think we're likely to see demand for various commodities continue to be robust well into year's end.

As more demand comes online, I no longer think that US$100 per barrel of oil is so far-fetched anymore. As we march closer to post-pandemic normalcy, I think the broader TSX Index can continue moving higher on the back of oil's newfound momentum. In this piece, we'll have a look at two of the best Canadian stocks that I'd be looking to buy today if you're looking to profit from the coming reopening that could inspire the TSX to finally outperform the **S&P 500** or at least give it a better run for its money.

The best Canadian stocks on the TSX may lie in the (still) ailing oil patch

Without further ado, consider **Suncor Energy** (TSX:SU)(NYSE:SU) and **Cenovus Energy** (TSX:CVE)(NYSE:CVE), two dirt-cheap Canadian stocks that look well positioned to lead the TSX Index much higher.

Suncor Energy

Suncor Energy is an integrated player in the oil sands. It has one of the better balance sheets in the oil patch and integrated operations that are ridiculously robust. Sure, the company had to trim its dividend through the worst of last year's industry headwinds. And while the move probably wasn't necessary, I think many shareholders were too quick to throw in the towel on a name that remains absurdly undervalued at just over 1.2 times its book value.

The management team played it safe by further improving upon the state of its balance sheet amid unprecedented COVID-19 pressures. Now that pressures are being lifted, demand could drive WTI

(West Texas Intermediate) prices much higher over the next year, while Canada looks to close the WCS (Western Canadian Select) discount.

As cash flows improve again, one has to think that management will be ready to hike its dividend by a very generous amount at some point over the next 18 months. Such a move could spark a wave of income investors to flood back into the name, as investors forgive and focus on the brighter road ahead.

In prior pieces, I'd speculated that Warren Buffett had likely sold out of his Suncor stake because of the below-average dividend. Could a big dividend hike attract the man's attention again? Who knows? Regardless, investors should get in, even if Buffett will now be enjoying the show from the sidelines.

Cenovus Energy

Cenovus Energy is one of the most underrated Canadian energy firms in the oil patch. While the company has had more than its fair share of pressures over this past year, I think it's a mistake for value investors to discount its longer-term potential. It is one of the more innovative players in the oil sands, after all.

The company had made major strides over the years to improve upon its operational efficiencies. The solvent-aided process and other intriguing processes could very well drive down production costs over the years. While such efforts aren't paying dividends now, they could big-time if oil prices stabilize at these levels for longer.

Cenovus is a higher-risk bet than Suncor, but it comes with far greater rewards in the event of a bull-case scenario for fossil fuels. After surging over 300% from its 2020 low, the stock has taken a breather at around $9 and change. If you think US$100 oil is in the cards over the next three years, Cenovus is a top pick. But do be warned, as Cenovus is likely to take the brunt of the damage if oil prices were to slip significantly.

As long as WTI remains at or above US$50, I'm a huge fan of Cenovus's risk/reward tradeoff with shares at 0.8 times book.

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Date
2025/07/25
Date Created
2021/05/26
Author
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