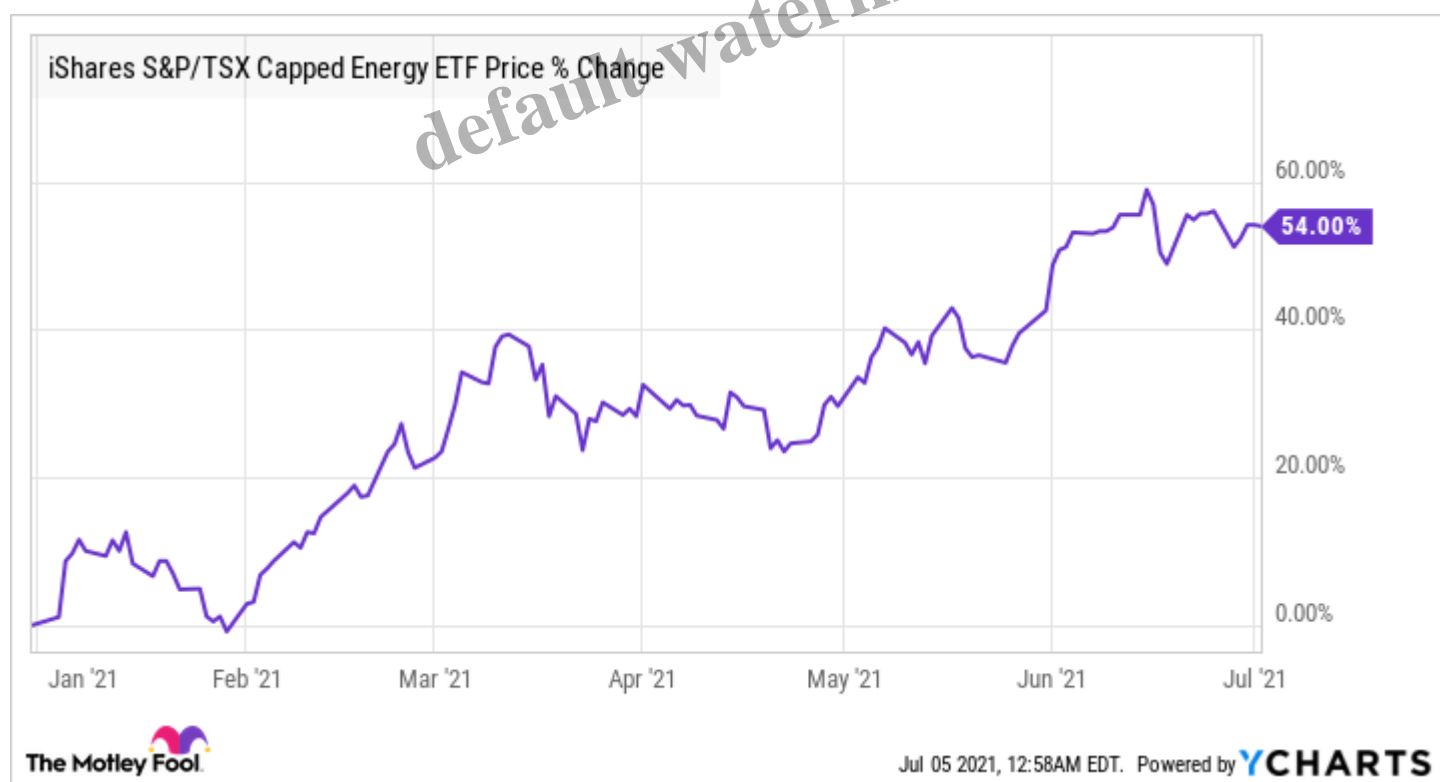




Energy Stock Rally: 3 Stocks That Could Climb Higher

Description

The energy sector has experienced a strong comeback rally. A rally of 54% year to date is illustrated by **iShares S&P/TSX Capped Energy Index ETF**, an exchange-traded fund ([ETF](#)) that targets exposure to businesses in the Canadian energy sector.



XEG data by YCharts. TSX:XEG year-to-date price action.

The ETF's top five holdings are **Canadian Natural Resources**, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), **Cenovus Energy**, **Tourmaline Oil**, and **Imperial Oil**. They make up about 25%, 24%, 13%, 8%, and 7% of the fund.

As the economy reopens post-pandemic from the assistance of successful vaccine rollouts, increased travel volumes by plane and car could help sustain relatively high oil prices. The West Texas Intermediate (WTI) oil price stands at about US\$75 per barrel at writing. Some pundits think a surge in oil demand from reopenings could drive the WTI oil price to US\$100!

Investors who are bullish on energy prices but want to limit company-specific risk can consider investing in the ETF. If you're looking for more adventure and potentially safer or greater returns, you can consider these energy stocks.

Enbridge stock

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) stock's juicy yield of about 6.7% should immediately stand out compared to iShares S&P/TSX Capped Energy Index ETF's recent cash distribution yield of about 1.6%. While many investors chase growth and price appreciation, ENB stock investors can enjoy a stable return of about 6.7% from its dividend alone.

ENB investors don't have to worry about where its stock price will go as long as Enbridge maintains its dividend and investors don't need to sell the stock to get their money back.

Besides, it's more likely than not that Enbridge stock will increase its payout, as it has done for 25 consecutive years with a sustainable payout ratio and steadily rising earnings or distributable cash flow. In summary, Enbridge stock is a relatively safe energy stock to invest in.

Suncor stock

Suncor stock is the second-largest holding of the energy ETF. It is an integrated energy company that is involved across the energy value chain. Its operations include oil sands development, production, and upgrading, offshore oil and gas, petroleum refining in Canada and the U.S., and a Petro-Canada retail distribution network. It has also installed electric vehicle fast chargers across its network.

The company will definitely benefit from higher oil prices. The energy stock remains depressed from pre-pandemic levels and can recover to the \$40 per share level for an upside potential of more than 35%. Meanwhile, it provides a yield of about 2.9%. Furthermore, it can raise its dividend again on an improving operating environment.

Parex Resources stock

Higher oil prices will also certainly benefit **Parex Resources** ([TSX:PXT](#)), which is the 10th-largest holding in TSX:XEG and produces oil in Colombia. Importantly, it has a pristine balance sheet with no debt since Q2 2015. Furthermore, it has a proven business model to generate free cash flow, which is a big deal in the energy sector!

Notably, the company has opted to buy back shares with its excess cash instead of paying dividends. Parex Resources plans to repurchase nearly 10% of its outstanding shares this year.

Stock buybacks are a good idea when the energy stock is cheap as it is now. An upside potential of

about 46% is possible over the next 12 months!

CATEGORY

1. Energy Stocks
2. Investing

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:ENB (Enbridge Inc.)
4. TSX:PXT (PAREX RESOURCES INC)
5. TSX:SU (Suncor Energy Inc.)
6. TSX:XEG (iShares S&P/TSX Capped Energy Index ETF)

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