3 Best Canadian Energy Stocks to Buy on the Pullback

Description

Oil prices took a big hit in recent days sending the share prices of top Canadian energy stocks into a tailspin. Investors who missed the rally this year are wondering which Canadian energy stocks are now undervalued and the best to buy.

Suncor stock

Suncor (TSX:SU)(NYSE:SU) is Canada's largest integrated energy company with production, refining, and retail operations.

The stock historically held up well during periods of low oil prices due to the revenue hedge provided by the downstream operations. The pandemic, however, hit all three business units as the drop in the price of oil occurred as a result of the plunge in fuel demand. Typically, oil prices drop on issues of oversupply.

Suncor's share price fell from $44 before the pandemic when West Texas Intermediate (WTI) oil was about US$60 per barrel to $15 last fall when oil traded around US$36. The rebound in the price of oil to above $75 this year provided a nice tailwind for the stock, sending Suncor to $31 in the middle of June. Since then it has pulled back to $25 and trades near $26 at the time of writing.

Suncor stock looks cheap at this price. Fuel demand is rebounding as Canada and the United States remove travel restrictions and people start heading back to the office. With WTI oil still above US$67 per barrel Suncor is making good profits. It wouldn't be a surprise to see the stock retest $40 by the middle of next year.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is a giant in the Canadian energy patch with oil, natural gas, and gas liquids assets. CNRL has oil sands, conventional heavy oil, light oil, offshore oil, and natural gas production as well as important infrastructure in key regions.

The company tends to fully own its assets rather than partner with other firms on projects. This gives CNRL better flexibility to move capital around to take advantage of changes in market prices. For example, natural gas prices have been very resilient through the pandemic and are currently near multi-year highs.

CNRL has a strong balance sheet and raised the dividend by 11% for 2021. The stock had a nice run from $20 last October to $45 in June. The recent pullback to $40 should be viewed as a buying opportunity. Investors who buy the shares at this level can pick up a 4.6% dividend yield. That makes CNRL a great pick for a Tax-Free Savings Account (TFSA) income fund or as part of a dividend-focused RRSP portfolio.

Crescent Point

Crescent Point (TSX:CPG)(NYSE:CPG) once traded above $45 per share and paid out generous dividends. The meltdown in the price of oil in 2014 led to a series of distribution cuts as Crescent Point battled with plunging cash flow and high debt levels the company has taken on to fuel acquisitions.

Management sold off non-core assets to strengthen the balance sheet, but investors continued to punish the stock. At the low point in 2020, Crescent Point traded for less than $1 per share.

Investors who had the courage to buy at that point are sitting on some nice gains. The stock currently trades near $4, but that's down from 2021 high above $5.75. This stock will continue to be volatile, so you need a strong stomach to buy the shares. However, oil bulls might want to start nibbling on the latest pullback.

Crescent Point is generating good cash flow at current oil prices and started making strategic acquisitions again earlier this year. I wouldn't buy Crescent Point in the hope of it becoming a dividend star again, but there should be huge upside potential for the share price if oil prices extend their gains.

The bottom line on top energy stocks

Suncor, CNRL, and Crescent Point all look cheap right now and have the potential to deliver attractive returns for shareholders in the next 12-18 months. If you are an oil bull these stocks deserve to be on your buy list.

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2. NYSE:SU (Suncor Energy Inc.)

3. NYSE:VRN (Veren)
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