



3 of the Best Canadian Value Stocks to Buy Before August

Description

The **TSX Index** has had a strong run-up so far in 2021. Nonetheless, there is still attractive value in some Canadian energy stocks especially. The transition to renewables is perhaps taking longer than many would like or be willing to admit.

Yet, during the pandemic, many of Canada's best energy businesses have strengthened their operations and lowered their cost structure. Likewise, capital allocation, debt reduction, and stable shareholder returns have become a prime focus.

As a result, I believe this industry still has legs to run. Canadian investors could do well to at least have some exposure to energy stocks (whether it be traditional or renewables) in their portfolio. Here are three of the best Canadian [value stocks](#) I would buy before August.

Suncor Energy: A top Canadian energy stock

While I don't love traditional energy producers, I am willing to make a few exceptions today. **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) is well-known for its oil sands operations in Alberta. However, that only represents about 10% of its total operations. In fact, 50% of its cash flows come from refining and retail operations. The remainder comes from processing, logistics/infrastructure, and offshore oil production.

Suncor stock has failed to appreciate at the same rate as its energy peers. Consequently, I believe it presents a pretty attractive entry point. At today's oil prices, the company is gushing free cash flow.

Rather than spending excess cash flows on increasing production, Suncor has focused on cleaning up its balance sheet, buying back shares, optimizing current operations, and [diversifying into renewables](#).

The company pays a nice 3% dividend right now, but it could grow this year. Combine solid dividends with a ton of excess free cash flow, and this Canadian stock could have a nice turnaround from here.

Enbridge: The highest dividend on the TSX

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) is another energy-related stock that just doesn't seem to get the respect it deserves. It operates one of North America's largest pipeline networks. It has diverse operations with over 40 different sources of cash flow. Many investors are concerned about the downside risks from issues related to its Line 5 dispute with Michigan. Yet, many don't factor in any of the upside from the execution of its \$17 billion capital plan.

This includes its Line 3 replacement project, which despite environmental protests, appears to be set for completion by the end of the year. That project alone could provide substantial upside in cash flows next year. While investors wait, they are compensated with a substantial 6.88% dividend. That will likely keep growing as it executes its diversifying capital plan.

AltaGas: A top Canadian value stock

Another utility-like Canadian energy stock is **AltaGas** ([TSX:ALA](#)). Over the past few years, this company has been working out a very strong turnaround for investors. It divested non-core assets, simplified its business structure, and has been working to quickly reduce debt. Today, it is better positioned than ever.

Over half its cash flows are derived from a very solid natural gas utility business in the U.S. This business earns a stable baseline of cash flows. It also has a plan to significantly grow its rate base over the next few years. That should support solid dividend growth going forward.

Likewise, its midstream and export operations across Canada are enjoying a very strong recovery in 2021. Growing natural gas production and rising demand in Asia could all help produce a banner year. This Canadian stock remains undervalued, despite having an equal or better growth profile to many peers.

Given that it pays an attractive and growing 3.8% [dividend](#), this energy stock should provide solid total returns in 2021 and beyond.

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