



My 2 Favourite Canadian Energy Stocks to Buy in August

Description

It has been a [bull market](#) for Canadian energy stocks in 2021. The **S&P/TSX Capped Energy Index** is up nearly 39% from the start of the year. That soundly beats the **TSX Index**, which is up only 16%. Yet there is reason to believe that energy stocks could still outperform through the rest of the year.

Some Canadian energy stocks still have more upside

Energy investments have significantly declined over the past few years. This was only made worse by the pandemic, which sent oil prices crashing. Now, as the world recovers, energy demand is recovering, but production levels have yet to catch up.

Likewise, many oil producers have now focused on shareholder returns over production growth (as it should be). Consequently, many Canadian energy stocks are operating leaner than ever and are producing very significant free cash flow yields. Given this, here are two top energy stocks that have piqued my interest as we head into August.

Tourmaline Oil: A top Canadian natural gas stock

Despite its name, **Tourmaline Oil** ([TSX:TOU](#)) is actually Canada's largest natural gas producer. It just announced quarterly results yesterday. It exceeded expectations and produced 410,339 barrels of oil equivalents. That's a 35% increase over last year. It is projecting volumes to rise to 450,000 in the third quarter and 500,000 by the second half of 2022.

This Canadian stock produced record free cash flow of \$349 million in the quarter. It expects to earn \$1.47 billion in free cash flow this year! Given very strong natural gas demand in places like California, management is projecting a free cash flow yield of 16% next year.

Tourmaline has a pristine balance sheet with only 0.4 times net debt to cash flow. Given its strong cash flow profile, that could quickly shrink to zero if it slowed its pace of acquisitions and capex only slightly.

This Canadian stock has had a good run this year, but I think there is still more upside. It has a best-in-class management team, very efficient production assets, and access to markets that are paying a premium for natural gas. Combine all these factors with a 2% dividend, and Tourmaline is a [top energy stock](#) to buy and hold today.

Suncor Energy: A top integrated energy stock

For a more diversified energy play, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) still looks pretty attractive today. This Canadian stock has largely underperformed in 2021 when compared to peers. It [announced quarterly results](#) yesterday.

While the company is ironing out some issues (Fort Hill mine construction and refinery turnarounds), it still produced earnings of \$868 million, or \$0.58 per share. Likewise, it generated \$2.362 billion in funds from operation, which is nearly five times what it produced last year at this time.

Since the pandemic, Suncor has re-focused its strategy to best maximize the assets it already holds. Through its broad upstream, midstream, and downstream integrated operations, it is able flexibly focus capital on segments that will earn the best return. As a result, it is hoping to unlock an additional \$2.15 billion of synergies and efficiencies over the next four years.

Right now, at current oil prices, this Canadian energy stock is gushing free cash flow. All this can be utilized for debt reduction, share buybacks, and potentially dividend increases. Since the start of the year, Suncor has bought back \$961 million of common shares, or 2.3% of its outstanding shares. Add in a 3.3% dividend, a great valuation, and longer-term value creation, and this is an attractive value, dividend, and turnaround stock to own today.

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1. Editor's Choice

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3. TSX:TOU (Tourmaline Oil Corp.)

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Date

2025/08/26

Date Created

2021/07/30

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