Maximize the Recent Weakness and Buy TSX Energy Stocks in August

Description

It's not easy to ignore the market chaos. Long-term investors often have to face such dilemmas when short-term forces dominate and question your investing thesis. Energy investors must be facing such impasses these days. TSX energy stocks have been the remarkable outperformers since last year amid the reopening hopes. However, the coronavirus Delta variant has raised questions on reopenings and weighed on the energy sector recently.

So, should long-term investors get rid of the energy names that have already rallied or wait for more upside?

TSX energy stocks: What should one do?

WTI crude oil has corrected almost 15% since last month as Delta cases began rising. Emerging countries have been comparatively slower in vaccinations and, thus, could dent the energy demand. However, one should note that even if the Delta variant is much more powerful than its previous variants, vaccines have largely been effective on it as well. So, it could create a short-term blip, but it is unlikely that will delay the recovery significantly.

And, importantly, some of the Canadian energy names are very well positioned for the post-pandemic world. The biggest of them by market cap, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) stock, has fallen more than 12% since last month. However, it is still sitting at a handsome gain of 60% in the last 12 months.

I think there will be a limited downside in the CNQ, even if crude oil keeps trading weak (which also seems unlikely). Canadian Natural has a diversified product portfolio of crude oil, natural gas, and liquids that contribute to its top line. Its earnings recovery in the last few quarters underlines the upturn in the making.

Top Canadian energy stocks to buy

In addition, Canadian Natural boasts one of the strongest balance sheets and dividend profiles in the industry. It yields a handsome 4.5% at the moment, notably higher than peers. Investors can expect a decent dividend increase for the next few years, given superior earnings growth post-pandemic.

The recent correction could be an excellent opportunity for long-term investors. It is currently trading at a price-to-earnings valuation of 12 and a price-to-book ratio of 1.4. That highlights a discounted valuation compared to peers and suggests a decent runway ahead.

In comparison, **Suncor Energy** (TSX:SU)(NYSE:SU) stock has fallen 25% in the same period. It sports an inferior yield of 3% and also has a comparatively less strong balance sheet. SU stock also looks expensive in relative terms, with its price-to-earnings multiple at 25.

Another Canadian energy stock that looks attractive is **Tourmaline Oil** (TSX:TOU). This natural gas titan has fallen 12% since last month and is still sitting on striking gains of 95% for the last 12 months.

Its net income doubled in the last 12 months, driven by superior demand and higher gas prices. Besides, its operational efficiency substantially improved in the last few quarters, which should translate into enhanced profitability.

Tourmaline Oil stock looks even more attractive from the valuation perspective. It is currently trading at seven times its historical earnings, way discounted against peers. Its price-to-book value multiple comes at one.

Bottom line

Energy markets could continue their upward march once Delta variant fears subside. Some experts even see crude oil touching US$100 per barrel amid the new normal. TSX energy stocks could bring remarkable gains in that case if long-term investors ignore the ongoing short-term noise.

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5. TSX:TOU (Tourmaline Oil Corp.)

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