2 Energy Stocks to Buy As Oil Rises

Description

The energy sector was one of the last ones to gain traction on the stock market's road to recovery and witnessed a glorious run between November 2020 (when it started climbing) and July 2021 (when it peaked). The S&P/TSX Capped Energy Index grew 125% during this time, which is just short of the tech sector and significantly better than the financial sector.

But the sector finally ran out of momentum. The index is already down 15% since its July peak, and the downward spiral is not showing any signs of stopping. The sector's decline was in line with the crude oil West Texas Intermediate futures, which fell quite drastically till mid-July before climbing up again. But the prices are falling down again, and this decline can be chalked up to the Delta variant.

Perhaps the fear of this variant wouldn't have been so grand and affected oil to such extent, but the fact that it's exploding in China, where the original virus originated, has a very potent effect.

Still, as an investor, you might consider it an opportunity. If you buy energy stocks when they are at a discount, you might be able to lock in a decent yield as well as experience capital appreciation as oil rises.

The energy giant

As the largest company in the sector, **Enbridge** (TSX:ENB)(NYSE:ENB) gets a lot of investor attention. But that's not the only reason this generous Dividend Aristocrat gets the spotlight. Its payout growth is substantial and, thanks to its energy-transportation business models involving long-term contracts with energy producers, keeps its revenues relatively sheltered from oil price fluctuations.

However, the speculation around the energy industry hurts its stock just like other energy companies, albeit at a slightly different pace. Even now, when the stock has grown by a substantial margin in the last 10 months, the yield is still 6.7%. If the stock falls by a significant margin in the coming months, you might be able to lock in a 7% yield, plus the recovery-fuelled capital growth.

Another pipeline company

Pembina Pipeline (TSX:PPL)(NYSE:PBA) is another pipeline and energy company that should be on your radar partly because it's financially "safe" the same way Enbridge is and partly because it's still heavily discounted compared to its pre-pandemic peak. And if the oil prices continue sliding downward, it might become even more attractively priced.

Before the pandemic, Pembina was one of the few energy stocks that grew relatively consistently. While the growth was slow, it was enough to mix a decent amount of capital growth potential with a relatively generous yield. The company *has* been growing since the crash as well, but the dip was too deep, and it might take the stock more time to reclaim its former position.

The company is offering a powerful 6.1% yield, and if you wait for another dip, you might get an even better number.

Foolish takeaway

The energy sector is not just suffering from the Delta variant, however. The sector is also being weighed down by the woes of another connected sector, that is, travel. Air travel will take some time before reaching pre-pandemic levels, and even though it might only be a nudge, not a full-powered push in the right direction, travel resuming to pre-pandemic levels might help the energy sector gain traction.

So you might consider betting on them before the energy bull market starts.

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