2 Oversold Energy Stocks to Buy Now

Description

The pullback in the energy sector is giving investors who missed the 2021 rally another chance to buy undervalued oil stocks.

Crescent Point Energy

Crescent Point (TSX:CPG)(NYSE:CPG) in its prime was one of the energy sector's top growth names with an appetite for acquisitions that was among the most aggressive in the industry. The company also paid out a generous dividend that helped attract buyers of new stock each time it raised funds to fuel new deals.

The oil crash in 2014 and subsequent challenging years hit Crescent Point hard. The company carried significant debt and was forced to slash the distribution. As a result, the share price fell from $46 in 2014 to below $1 at the lowest point last year. Investors who had the courage to buy at the 2020 nadir are still sitting on some decent gains, even after the pullback in the stock price over the past two months. Crescent Point traded above $5.75 in June and currently trades near $4 per share.

A dip in oil prices is responsible for the drop in recent weeks. WTI oil hit a 2021 high around US$76, but recently fell as low as US$62. At the time of writing, bargain hunters are stepping in and WTI currently trades close to US$65.

Crescent Point spent the past few years monetizing non-core assets to reduce debt. The balance sheet is now in decent shape, and Crescent Point generates healthy cash flow at current oil prices. The company even started doing deals again earlier this year.

In the Q2 2021 earnings statement Crescent Point raised its production guidance for the year while maintaining its target capital expenditures. Management anticipates excess cash flow for 2021 to be $675 million at average WTI oil of US$65 and $775 million if oil averages US$75 per barrel.

Even at the lower range the company is a cash machine. Crescent Point's market capitalization is just $2.25 billion at the time of writing, and net debt at the end of Q2 was $2.3 billion.

The stock appears cheap right now and offers huge upside potential if oil prices return to their 2021 highs.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is a major player in the Canadian energy sector with a market capitalization of $48 billion. The company owns assets across a diverse range of hydrocarbon products, including oil sands, conventional heavy and light oil, offshore oil, and natural gas.

High natural gas prices and the rebound in the price of oil this year have enabled CNRL to raise its dividend by 11% for 2021. The company is using excess cash to reduce debt and buy back shares.

The stock rallied from $20 last October to $46 in June. The pullback in the energy sector recently dropped the share price below $40. At the time of writing, CNRL trades near $40 and provides a $4.6% dividend yield.

Shareholders should see another big dividend hike next year, and the stock could easily top $50 on the next surge in energy prices.

The bottom line on energy stocks

The post-pandemic economic rebound could drive oil demand higher than expected. Some analysts see a tight market through 2025, and many predict a run to US$80 per barrel.

If you are an oil bull, Crescent Point and CNRL appear cheap right now and could deliver huge gains by the end of 2022.

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Date
2025/08/15
Date Created
2021/08/25
Author
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