2 TSX Energy Stocks to Buy as Oil Rallies

Description

Oil prices are picking up traction again, breaking its painful seven-day losing streak amid Delta variant concerns. While it’s tough to say where WTI (West Texas Intermediate) prices could be headed next, given the large number of variables involved, I think that the reversal of trend is worth betting on if you’re light on fossil fuel plays and have been waiting for a great time to get back in. Undoubtedly, energy is not a sexy place to invest these days. But with that, there’s profound value to be had for those who are willing to act contrarian.

Moving into the fall season, I wouldn’t be shocked if oil surged above US$80. Battered TSX energy stocks like **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) and **Cenovus Energy** (TSX:CVE)(NYSE:CVE) could have room to run in such a bull-case scenario. But which is the better buy here? Let’s have a closer look to get a better gauge of the risk/reward tradeoff at this juncture.

Canadian Natural Resources: There’s a new king of the oil patch

Canadian Natural Resources posted an impressive recovery from the 2020 coronavirus crash, which wiped out over 71% of the TSX energy stock’s value in just weeks. If you’d held or bought more through the very painful implosion, you not only scored incredible gains, but you also locked in a sizeable dividend yield that’s yours to keep.

Today, the dividend yield has shrunk back to normalized levels at 4.6%. The opportunity to snag a steal has come and gone. But that doesn’t mean there isn’t any value left in the oil kingpin, especially if you think oil could test the US$100 level at some point in the “Roaring 2020s.”

In terms of quality in the energy sector, I think Canadian Natural is the best of its breed. The company has an incredibly resilient mix and an exceptional operating performance amid some rough headwinds. With one of the most attractive dividend policies in the oil patch, CNQ should be the go-to for income investors seeking the optimal risk/reward tradeoff. Although you won’t get the most gains from the name in a continuation of oil’s rally, you will get far better downside protection, given the firm’s rock-solid balance sheet and resilient integrated operations.

Cenovus Energy: High risk but higher reward

For those seeking a higher-upside trade, Cenovus Energy may be the better horse to bet on amid oil’s renewed momentum. The company has been quite busy divesting ample amounts of assets to improve the state of the balance sheet. While it has been a bumpy ride for the $21.2 billion integrated energy company that fell upon hard times last year, it certainly seems like things are finally looking up for a name that could be on the cusp of a multi-year breakout.

Shares are still off over 20% from January 2020 levels. But if oil keeps rallying at this pace, I think it will be just a matter of time before the name makes a run for the $15 level. Analysts are ridiculously bullish on the name, with Credit Suisse’s Manav Gupta recently upgrading the name to a buy with a $15 target. At a nearly 10% discount to book value, I’d say the margin of safety is looking quite sizeable in the underappreciated TSX energy stock.

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2. NYSE:CVE (Cenovus Energy Inc.)
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joefrenette