Top 2 Energy Stocks to Buy in September 2021

Description

Over the last two months, energy stocks took a bearish tone as there were many moving pieces, which begs the question: is it the end of the pandemic? Let me take you back to mid-June. The Organization of the Petroleum Exporting Countries (OPEC) disputed over raising oil production as half the world was reopening while the other half was closing again due to rising Delta variant cases.

If oil demand and supply uncertainty were not enough, environmental issues aggravated for oil sands and oil pipeline companies. Being one of the largest oil reserves, Canada took a blow. Canadian energy stocks fell faster than U.S energy stocks.

Cenovus Energy stock

Cenovus Energy (TSX:CVE)(NYSE:CVE) stock fell 25% between June 15 and August 19 as U.S. West Texas Intermediate (WTI) crude oil price declined 16%. Cenovus is the second-largest integrated oil and natural gas company after **Suncor Energy**. Cenovus acquired Husky Energy for $3.9 billion in January when the oil price was accelerating. The acquisition timing is perfect as it gives Cenovus the capacity to cater to the pent-up demand as travel reopens.

Cenovus is producing around 770,000 barrels per day, despite planned turnaround at various sites. In the second quarter, high oil output combined with rising oil price earned Cenovus $1.3 billion in free funds flow. The company used this cash to reduce its net debt by $1 billion. But the dip in oil price pulled the stock down. The oil price is rising once again as the United States halts production in the Gulf of Mexico ahead of the major hurricane.

This temporary shutdown pushed Cenovus stock up 10% in six trading days, giving you a glimpse of the rally when the oil price rises. The stock is currently trading at a forward price-to-earnings (PE) ratio of 7.07x, which is cheap compared to the 18% EPS growth analysts expect for full-year 2022. I expect the stock to return to its June high of over $12.6, representing a 19% upside.

Oil stocks are more volatile as they are dependent on oil prices. But energy infrastructure stocks like pipeline stocks are less volatile. They are not directly impacted by oil prices. Hence, they are more resilient than oil stocks, but they have their challenges and opportunities.

TC Energy stock

For infrastructure companies, capital investment in environmental activities has low returns, but it is necessary or the repercussions could be expensive. **TC Energy's** (TSX:TRP)(NYSE:TRP) Keystone XL pipeline had many issues. If you read about it, the project looks like an environmental disaster. No patchwork by TC Energy could resolve those oil spills. The problem was with the original design, manufacturing, and construction noted *Reuters* citing the Government Accountability Office report.

Finally, TC Energy cancelled the decade-long pipeline project, sending the stock down 10% in two months. While many see the cancellation as a negative, this has opened up capital locked in the troublesome project. As new projects come online and oil demand rises, TC Energy stock could surge.

One important point is that the company did not make dividend cuts. For less than $60 a share, you can lock in a 5.82% dividend yield. Other pipeline stocks, like **Enbridge** and **Keyera,** are trading below $50 a share and offering a dividend yield of over 6%. They are good stocks but not cheap. They have a forward PE ratio of 16.2x and 15.7x, respectively, which is higher than TC Energy's ratio of 13.77x.

Take advantage of this low valuation while investors are still bearish on TC Energy. Once the benefit of capital savings from the cancellation of the over-budget project starts reflecting in the company's financial statements, the stock price could surge. It could even reach its pre-pandemic level of over $65, representing an 8.7% upside. To add a cherry on the top, you can enjoy a 5.82% dividend yield.

Final thoughts

If you are considering building an energy portfolio, the above two stocks will help you get a wholesome exposure to oil prices. The dividend of pipeline stocks can help you balance the volatility of oil stocks, giving you a good blend of risk and reward.

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