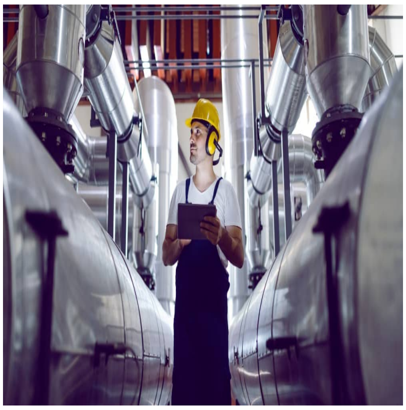

2 Energy Stocks to Track as Oil Turns With the Tide

Description

The second quarter of 2020 was one of the worst times for oil futures and the energy sector as a whole. Crude oil WTI futures hit historic lows, and the many energy giants booked massive losses. Despite controlling production (which is quite difficult thanks to a plethora of moving parts along the supply chain), the sector was left with a huge surplus on its hands that was weighing the market down.

But as people became used to the pandemic, the world reclaimed some resemblance of pre-pandemic normality, and the demand slowly rose, the crude futures started recovering. They hit the highest point (in 2021) in the first week of July, but it has seen a lot of fluctuations since then. It reached a new peak at the end of July, and from there, the futures slumped for about three weeks straight.

It's on the mend now, and the per-barrel price is rising at a faster pace than it fell earlier in August. We've yet to see whether it's the beginning of a long-term bull run or just a temporary recovery. Either way, there are two stocks that you should keep an eye on and look for the right time to buy.

An oil sands giant

Suncor (TSX:SU)(NYSE:SU) was once one of the most beloved dividend stocks, but the 2020 demand slump was too much for the company, and it slashed its dividends to more affordable levels. But the cut was quite brutal — from $0.4650 to $0.21 per share. The pragmatic choice might have alienated some investors, but it allowed the company to keep its dividends at a stable payout ratio (84%).

Between Nov. 2020 and June 2021, the recent golden recovery period, the stock grew over 100%, but it has come down a long way since its June peak (over 22%). Consequently, the yield went up, and even though it's not nearly as juicy as it could have been, 3.4% is still a considerable number — especially since the chances of Suncor raising its payouts are significantly higher than it slashing them again. You might also see some capital appreciation when the sector finally recovers.

A small exploration and production company

If you are more interested in capital appreciation potential than dividends, **Gear Energy** (TSX:GXE) is worth considering. The company only has a market capitalization of $178 million, and it's a mere fraction of its 2014 glory days, but its growth potential is still quite powerful. Despite a 28% drop from its June peak, the stock has returned over 280% in the last 12 months.

Another reason to consider adding this small energy stock to your portfolio is its undervaluation. The price-to-earnings multiple is just 4.8, and the price-to-book multiple is at 1.6 times. The company has minimal debt, a strong balance sheet, and financials that are recovering at a decent pace. Even though, as an exploration company, it might not be a great long-term holding, its growth potential makes it worth tracking.

Foolish takeaway

As the world becomes greener, we are trying very hard to minimize our reliance on fossil fuels. But it will still take decades for the world to "get over" oil, which is enough time for the energy companies to contain their carbon footprint and explore other business avenues. Until then, you shouldn't refrain from adding profitable energy stocks to your TFSA or RRSP.

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Date
2025/08/23
Date Created
2021/09/02
Author
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