Bet on Oil With These 2 TSX Oil Stocks

Description

Many investors did not expect the energy sector to recover so soon and have an explosive start to 2021. Most of its constituents suffered enormous losses from the oil price war and the coronavirus outbreak. Even Warren Buffett ditched his long-time Canadian value stock, **Suncor Energy** (TSX:SU)(NYSE:SU), in Q1 2021.

The oil bellwether and **Whitecap Resources** (TSX:WCP), slashed their dividends to preserve capital and protect the balance sheets. However, if you were to bet on oil today, last year's beaten-down energy stocks and undervalued assets today are the top picks in September 2021.

Impressive turnaround

Suncor Energy tanked to as low as $14.29 on March 18, 2020, then lost its Dividend Aristocrat status at the close of Q1 2020. The current share price of $23.20 (+11.32% year to date) reflects the impressive turnaround following four consecutive quarterly losses.

In 2021, the $34.44 billion integrated energy company posted net earnings, not losses, in Q1 ($821 million) and Q2 ($868 million). Six months into 2021, Suncor Energy's total net earnings were $1.69 billion compared to the $4.13 billion net loss in the same period last year.

Notably, cash flow from operating activities in Q2 2021 increased 172% to $2.086 billion compared to Q2 2020. Its President and CEO Mark Little said, "The improved cash generation enabled us to increase shareholder returns to approximately $1.0 billion."

Little adds that the figure represents approximately 40% of Suncor's funds from operations. Management also targets to reduce debt further in the latter part of 2021. Suncor also repurchased around 23 million common shares during the quarter and paid out $315 million in dividends.

Both moves indicate the focus to maximize return to shareholders. While the dividend isn't as high as before, the current yield is pretty decent at 3.62%. The share price could potentially climb 58.84% to $36.84 in the next 12 months based on analysts' forecasts.

Sustainable business model

Whitecap Resources trades cheap at $5.47 per share. However, the price is 137% higher than a year ago. During the market selloff in March 2020, the price dropped to as low as $0.79. Today, market analysts recommend a strong buy rating for the energy stock. Their 12-month average price target is $8.98, or a 64% upside.

In Q2 2021, the company reported exceptional results from all businesses, including record production. Like Suncor Energy, Whitecap generated significant funds flow. It reported a net income of $38.2 million in the first half of 2021 compared to the $2.19 billion net loss in the same period last year.

The $3.45 billion company is confident the product momentum will continue in the ensuing quarters. On May 17, 2021, management announced an 8% increase in monthly dividends. Whitecap's current dividend yield is 3.56%, while the payout ratio is a low 19.28%.

Whitecap acquired NAL Resources Limited in January 2021 then bought TORC Oil & Gas the following month. In May this year, it purchased publicly-held Kicking Horse Oil & Gas. Management believes Whitecap's sustainable business model is stronger after completing the three disciplined acquisitions.

More attractive than ever

Suncor Energy and Whitecap Resources are past the beatings and losses in 2020. Both energy stocks are more attractive than ever. Would-be investors can expect a combination of income and growth as the companies continue to pick up steam in the back half of 2021.

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