



2 Top Canadian Energy Stocks to Buy Now

Description

The energy sector appears [undervalued](#) right now in a broader market that is arguably overbought. Let's take a look at two top Canadian energy stocks that deserve to be on your buy list for a TFSA or [RRSP](#) portfolio.

Suncor

Suncor ([TSX:SU](#))([NYSE:SU](#)) trades near \$25.50 per share at the time of writing compared to \$44 before the pandemic and a 2021 high around \$31. The stock fell out of favour with investors last year when the board slashed the dividend by 55%. The move came as a surprise to many long-term holders of the stock who thought Suncor would be able to keep paying its generous distribution (or even increase it), as the company had done in previous downturns in the oil market.

The pandemic, however, has been hard on all three of Suncor's operating units. The oil sands operations suffered from weak oil prices in 2020 and production challenges this year. The oil rally in 2021, however, has reversed the margin pain and Suncor is now generating strong profits from the upstream business.

The refining and retail assets historically provided a revenue hedge when oil prices dropped. Cheaper feedstock for refineries often drove up profits on the sale of the end products. Lower gas prices at the pumps enticed people to take more trips. The pandemic lockdowns changed the game as fuel demand plunged, meaning the refineries and gas stations saw a drop in sales, despite cheap crude oil and gasoline prices.

Now that airlines are ramping up capacity and commuters are preparing to get back on the highways, Suncor's refineries and roughly 1,500 Petro-Canada retail locations should see better results in 2022.

The board is using extra cash to pay down debt and repurchase shares in 2021. A big dividend hike should be on the way next year. Investors who buy Suncor at the current price can pick up a 3.3% yield and simply wait for the stock to move higher.

Canadian Natural Resources

Canadian Natural Resources ([TSX:CNQ](#))([NYSE:CNQ](#)) maintained its dividend increase from early 2020 and then raised the payout by 11% in 2021. The stock has tripled off the 2020 low, showing the difference between the market reaction to its payout decision versus the one taken by Suncor.

CNRL doesn't own downstream refining and retail operations, so it didn't face the same challenges over the past year that have plagued Suncor. In addition, CNRL's production portfolio is very diverse. The company has oil sands, offshore oil, conventional heavy and light oil, natural gas and gas liquids resources.

Natural gas prices remained steady last year when oil price cratered, helping CNRL ride out the worst months of the oil crash. In 2021, natural gas has soared to multi-year highs, driving strong profits. Oil has also rebounded over the past 11 months with WTI rising from US\$36 per barrel last October to the current price around US\$73.

CNRL is a profit machine right now, and the good times are expected to continue into 2022 and beyond. Natural gas storage levels are low heading into the winter season, and large cuts to oil exploration budgets last year could result in tight supply conditions through 2025, especially if fuel demand rebounds more than anticipated.

CNRL still looks cheap at the current share price of \$44 and provides a 4.25% dividend yield.

The bottom line on top energy stocks

Suncor and Canadian Natural Resources are leaders in the energy sector. The stocks should deliver strong dividend growth in the next few years, and investors could see big upside in the share prices. If you have some cash to put to work in a TFSA or RRSP portfolio, these stocks deserve to be on your radar.

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