



1 Top TSX Stock to Play the Crude Oil Rally

Description

The once disliked energy sector has overshadowed broader markets in 2021. While Canadian markets have gained 15% this year, energy TSX stocks have gained more than 55% in the same period. Many investors switched to energy stocks this year after suffering from a long-term downtrend before the pandemic. But is crude oil peaking? Is this the start of the pullback in the outperforming energy sector?

TSX stocks and the energy rally

Crude oil has rallied almost 10% in September alone, taking the energy markets to their highest levels in three years. The rally was mainly driven by re-opening hopes and higher demand from Asian giants like China and India. Imagine the demand returning in full when restrictions fully wane post-pandemic, probably this time next year.

On similar lines, major oil forecasters expect a relatively [faster recovery](#) from the pandemic than earlier expected. OPEC [expects](#) global oil demand to reach 100.15 million barrels by the second quarter of next year — the highest levels witnessed in 2019.

On the other hand, higher crude oil prices stoke fears of higher inflation, which might affect demand from emerging countries. OPEC might intervene and increase production to cool off the inclined demand-supply equation. So, market participants can expect strong resistance at US\$80 per barrel for oil in the short to medium term.

So, how should you approach energy stocks from here?

I think Canadian energy giant **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) is poised to grow from its current levels. I like CNQ more than **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), despite the latter's large integrated operations.

CNQ stock has returned 125% in the last 12 months, notably beating Suncor Energy stock, which has gained 61%.

Canadian Natural saw much faster earnings growth recovering in 2021 after a remarkable dip last year. Even if oil prices fall from the current levels, I think CNQ will report handsome free cash flow growth in the second half of this year.

What sets CNQ stock apart?

A \$54 billion Canadian Natural produces a balanced mix of natural gas, light and heavy crude oil, and natural gas liquids. In comparison, Suncor Energy's integrated operations cover oil production, refining, and marketing petroleum products.

Both Suncor and CNQ pay stable dividends. Suncor yields 3.2%, while CNQ yields 4.1%. When cash preservation became a necessity last year, Suncor Energy trimmed its dividend. Canadian Natural, however, kept on raising shareholder payouts, indicating its strong balance sheet.

Despite the rally, CNQ stock is currently trading 13 times its earnings. Investors can see another leg of the rally when it reports Q3 earnings early next month. Suncor Energy is trading 26 times its historical earnings.

Bottom line

I think crude oil will remain relatively strong as against last year. Economies reopening will likely be a more dominant [bullish](#) cue for the energy markets than the opposing bear signal of supply increase. So, if you want to play the energy rally, CNQ is an attractive long-term bet driven by discounted valuation, stable dividends, and a strong balance sheet.

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