1 Top Energy Stock to Buy in October

Description

The energy sector is moving higher after the recent pullback and more gains should be on the way heading into 2022.

Oil market outlook for 2022

Brent crude recently hit US$80 per barrel, while West Texas Intermediate (WTI) is trading near US$75. These are very profitable prices for oil producers and the market is just starting to figure out that many of the Canadian energy companies still trade at very cheap prices. Oil has more than doubled its price from October last year. As demand increases, there is a possibility that supply increases will not be able to keep up to maintain a balanced market.

Most of the 2020 excess reserves have already been drawn down. Across the industry, major producers slashed capital investments by tens of billions of dollars last year to protect cash positions. Pressures for meeting climate goals and ESG targets will likely mean that very few new large-scale production facilities will get built in the next few years.

At the same time, fuel demand could surge far beyond expectations as air travel rebounds and millions of commuters decide to drive to work instead of taking crammed public transit.

Oil bulls are calling for a spike to US$100 per barrel in the next two or three years. Some bets are even being placed on oil hitting US$200 per barrel. At that price, the economic recovery would likely grind to a halt and drive down oil demand, but even a gradual climb to US$90 per barrel over the next few years would mean a cash flow windfall for oil producers and their investors.

At current prices, oil companies are already generating solid profits and that should translate into higher dividends in 2022 and beyond. Let’s take a look at one Canadian oil and gas giant that deserves to be on your radar right now.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is a great energy stock to own if you want to get exposure to the full hydrocarbon market. CNRL operates oil sands, conventional heavy oil, conventional light oil, offshore oil, natural gas, and natural gas liquids production facilities. The company owns a vast untapped land base with extensive resources and tends to own its assets 100% rather than partner with other companies. This strategy increases risks, but it also gives CNRL the flexibility to quickly shift capital around the portfolio to take advantage of profitable moves in energy prices.

The natural gas business is not as well known to investors, but it is a big part of CNRL's revenue stream and provides a good balance when oil prices hit a rough patch. This was the case last year when the price of oil tanked. CNRL maintained its dividend in 2020 when other companies cut payouts and then raised the distribution by 11% in 2021. The current payout provides a 4% yield.

The company is on track to generate more than $7 billion in free cash flow (FCF) in 2021. If oil and gas prices maintain their current levels, the FCF number will be even higher next year. CNRL is using excess cash to reduce debt and buy back shares. Investors should see another big dividend hike in 2022.

The bottom line

CNRL has enjoyed a nice rally off the 2020 lows, but still appears cheap when you consider the fact that natural gas is trading at a seven-year high, and oil looks like it will hold or extend the 2021 gains through next year. If you are an energy bull, CNQ stock deserves to be on your buy list.

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Date
2025/07/07
Date Created
2021/10/03
Author
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