



3 Top Energy Stocks to Buy on a US\$80 Oil Price

Description

The WTI oil price has rallied from the low US\$60-per-barrel range in August to close to US\$80. This has, in turn, triggered rallies in energy stocks in general. Yet the benefits of higher oil prices may not be fully reflected in certain energy stocks. More price appreciation is poised to come for these three [top energy stocks](#).

Suncor Energy

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) stock remains a value pick among large-cap energy stocks. It has a long way to climb to return to its pre-pandemic levels. That would be an upside potential of roughly 51% to about \$42 per share!

The investing community is still skeptical about the energy stock, though. After all, stocks that cut their dividends are penalized for a long time. In May 2020, management decided that there were better-suited uses for its capital, and to shareholders' dismay, Suncor stock cut its quarterly dividend by about 55%.

Investing is forward-looking. As an integrated energy company, Suncor has the ability to improve efficiencies across the energy value chain. It operates oil sands development, production, and upgrading, offshore oil and gas, petroleum refining in Canada and the United States, and a Petro-Canada retail distribution network.

On its Investor Day in May, the company highlighted that it'll focus on "maximizing value over volume" through capital discipline and improving the reliability of its upgraders. These actions are set to ultimately translate to improved efficiencies.

Suncor's trailing 12-month free cash flow resulted in a safe payout ratio of about 52%. If it's able to generate higher cash flows from improved efficiencies and higher energy prices, it could hike its dividend, which should reinstate investor confidence in the stock. At writing, Suncor stock yields 3%, which is competitive.

Canadian Natural Resources

If you like Suncor, you should be even more comfortable with **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)). The large-cap oil and gas producer has maintained dividend growth through the pandemic, despite experiencing lower free cash flow in 2020. Specifically, it generated over \$2.1 billion in free cash flow in 2020. Its payout ratio was close to 91%! That was still much better than Suncor's negative free cash flow of more than \$1.2 billion.

CNQ continues to generate more free cash flow than Suncor. In the trailing 12 months, CNQ brought in free cash flow that doubled Suncor's, resulting in a payout ratio of about 38%. Therefore, CNQ's dividend appears to be safer. At writing, CNQ stock offers a juicier yield of 3.8% and has about 14% 12-month upside potential.

Parex Resources

Parex Resources ([TSX:PXT](#)) is the new dividend-paying energy stock on the block. It just started paying a dividend this summer. Previously, the oil-weighted producer would tend to use capital to repurchase its common stock. Management has decided that it generates sufficient free cash flow to cater for buybacks and dividends. The buybacks drive should substantial value for shareholders when energy prices get whipsawed and there's a meaningful selloff in the energy stock.

Since [Parex](#) produces oil in Colombia, it enjoys premium pricing in Brent oil. For example, at writing, the Brent oil price is US\$82.56 per barrel versus US\$79.13 for the WTI oil price and \$65.37 for the Western Canadian Select. The well-managed energy stock yields almost 2.1% and has 12-month upside prospects of approximately 34%.

The Foolish investor takeaway

If you're bullish on oil prices, Suncor stock is a great value pick. CNQ could be your stock if you want an energy stock with a tad more certainty. Also, consider smaller players like Parex, which is high quality and can provide decent upside.

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:PXT (PAREX RESOURCES INC)
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