TSX Energy Stocks to Load up the Truck This Earnings Season

Description

Energy will most likely be among the top-performing sectors this earnings season. It has already been an outperformer this year. For example, **TSX** energy stocks have been up more than 135% in the last 12 months, while the TSX Index is up a mere 28%! And interestingly, the outperformance will likely continue driven by energy companies' superior expected third-quarter earnings.

Crude oil has recently breached US$85 a barrel level, a fresh multi-year high. During the third quarter, it averaged around US$70, almost doubling from the Q3 2020 levels. So, energy companies should see a significant surge in their revenues and free cash flows this season.

Notably, there seems to be no sign of the crude oil rally slowing down anytime soon. As more and more economies re-open and supply remains constrained, energy markets should remain tall.

Here are two TSX energy stocks you can consider this earnings season.

MEG Energy

Oil sands producer **MEG Energy** (TSX:MEG) has been one of the top gainers this year. The stock has rallied more than 370% in the last 12 months, notably outpacing peers.

During the first half of 2021, the company reported $51 million in net income against a loss of $364 million in the same period of 2020. Its upcoming earnings will likely continue the momentum, which could drive the stock further higher.

Additionally, the company has increased its production guidance for the year 2021. So, higher production and higher oil prices could notably boost MEG's free cash flow for the year. The company expects it to expand beyond $1 billion in 2021 with crude oil at US$75 a barrel.

Note that MEG stock is trading at a price-to-earnings ratio of 57x and does not look cheap after the rally. However, strong growth prospects and rallying energy commodities could keep the uptrend going.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is Canada's biggest energy company by market cap. It is scheduled to release Q3 2021 earnings on November 4.

Canadian Natural earns a diversified revenue from crude oil, natural gas, and natural gas liquids. All these energy commodities have been sitting on mammoth gains since the last year.

So, like MEG Energy, Canadian Natural could also see a significant surge in its financial performance in the upcoming quarterly earnings. In addition, higher free cash flow might perk up investor sentiment around CNQ.

CNQ stock is up more than 125% in the last 12 months. Despite the rally, the stock is undervalued, trading at just 15 times its earnings.

Apart from the capital gain, CNQ stock stands far taller in terms of dividend profile as well. It yields 3.7%, higher than TSX stocks on average. Investors can expect a decent increase in dividends driven by growing its cash reserves.

So, Canadian Natural's strong balance sheet, scale, and stable dividend profile render it an interesting bet for long-term investors.

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