2 Oil Stocks to Buy as Crude Continues its Rally

Description

Oil prices have gained significant momentum this year after a disastrous 2020. The global oil benchmark, Brent, touched $86 a barrel earlier this month, which is the highest price in the last seven years. Given that several countries in Asia are in the midst of an energy crisis due to rising coal and natural gas prices, demand for oil can further tighten global supplies in the near term.

Let's take a look at two Canadian oil stocks that stand to benefit from higher commodity prices.

Canadian Natural Resources

One of the largest companies trading on the TSX, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) acquires, produces, markets, and sells crude oil, natural gas, and natural gas liquids. Rising crude oil prices have meant CNQ stock has returned a stellar 147% in the last year after adjusting for dividends.

In order to cover its dividend as well as accounting for the company's capital expenditures required to maintain current production rates, oil prices need to exceed US$35/barrel. Despite a volatile macro-environment and fluctuating commodity prices, Canadian Natural Resources's investment-grade balance sheet has allowed it to increase dividends at an annual rate of 20% in the last 21 years. The stock currently offers investors a forward yield of 3.5%.

In the first two quarters of 2021, CNQ has reduced net debt by $3.1 billion and returned $1.3 billion to shareholders via dividends and share buybacks. The company's long-life, low-decline assets support a sustainable and growing dividend, as was evident during the bear market of 2020 when the company maintained its payouts while several peers suspended or cut their dividends.

In Q2 of 2021, Canadian Natural Resources delivered net earnings of $1.55 billion with an adjusted funds flow of $3.05 billion and free cash flow of $1.5 billion.

Bay Street analysts covering CNQ stock expect its revenue to rise from $17.49 billion in 2020 to $22.84 billion in 2021 and $23 billion in 2021. Comparatively, its adjusted earnings per share are forecast to rise from $4.33 in 2021 to $4.8 in 2022. Analysts also expect the stock to gain close to 17% in dividend-adjusted returns in the next 12 months.

Suncor

Another Canadian energy heavyweight that is poised to benefit from higher oil prices is **Suncor Energy** (TSX:SU)(NYSE:SU). During its recent investor presentation, Suncor unveiled a five-year plan where the company aims to enhance profit margins, lower its cost structure and fortify its balance sheet by lowering debt.

Suncor intends to reduce its economic capital by 40% and add new revenue streams at mid-teens returns. The optimization phase might enable the company to improve shareholder returns as Suncor believes its dividends can increase at an annual rate of 25% through 2025. Similar to Canadian Natural Resources, even Suncor can maintain breakeven at US$35/barrel, allowing it to retire debt and boost its financials in the process.

In the last 12 months, Suncor stock has returned over 80% to investors in dividend-adjusted gains and analysts expect Suncor to return around 25% to shareholders in the next year. It offers investors a forward yield of 3%, at the time of writing.

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