3 Energy Stocks About to Become Attractively Valued

Description

A smooth business is when supply meets demand head-on. And most businesses, especially in the mature industries, do become smooth over time. This can be extrapolated for the industry they are in as a whole, even if the demand and supply are both diversified globally. And with that many moving parts, the disruptions to the balance have to be quite significant to break such an enormous momentum.

In the energy sector, those disruptions came in the form of certain energy giants flooding the market with too much oil (tilting the balance toward more supply). The pandemic did that as well, but by limiting the demand. And to meet the "revised" demand needs, energy companies throttled supply, which took time. And now the demand is back to normal; it's taking time for them to "restart" to optimal capacity, increasing demand.

That demand increase caused the energy sector to surge, making much Canadian energy giant grow at a powerful place. But now that the balance is being restored the momentum driving these stocks up might break. And there are some energy companies that you should consider buying during that "normalization phase."

A heavy oil and oil sands company

While it rebranded itself as a natural gas company, the bulk of **Cenovus Energy**'s revenues (TSX:CVE)(NYSE:CVE) are tied to oil (conventional, heavy, and oil sands). The refining production and refining capacity of the company is quite significant: Between 750 and 790 thousand barrels of oil equivalents (MBOE) per day, at least 70% of which come from oil sands.

The reliance on oil sands and having considerable assets in that domain is a distinct competitive advantage *if* the oil demand in the future exhausts the cheaper conventional oil. But that advantage might pay off decades into the future. And the stock, which rose 166% in the last 12 months, might not be able to retain its current height for that long. So buy the dip and wait for the next demand surge to send the stock rocketing upward.

A hydrocarbon exploration company

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is one of the most stable energy giants in Canada. The stock has been steady through the decade, surviving and recovering after a few major turbulences, but it hasn't fallen too far from its glory days valuation as most other energy stocks did. But even more attractive than strong the cyclical growth potential are the dividends this company offers.

It's currently offering a juicy 4.4% yield at a brutally stable payout ratio of 37%. And the cherry on top is the dividend raise this 20-year-old Dividend Aristocrat has announced for the upcoming quarter: A 25% growth. That's more of a climb that many Aristocrats offer in five years.

The stock has grown almost 90% in the last 12 months and has already grown more than 26% past its pre-pandemic peak. However, thanks to its earnings, it's almost undervalued. And the valuation might become even sweeter (along with the yield) if the stock dips with the sector.

A pipeline company

If you are planning on adding a high-yield energy stock to your portfolio, **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) is a good candidate. The company is currently offering a very attractive 6% yield, which is high (in part) due to the stock still languishing about 21% below its pre-pandemic peak. However, the "discount" hasn't translated that well into the valuation.

Pembina is also attractive for its slow but steady growth. The stock used to be a decent grower before the pandemic, and its post-pandemic growth has assumed the same pattern. It's an attractive buy already and might become even more so after a decent-sized dip.

Foolish takeaway

The energy sector is highly likely to end its bullish run by the end of this year and enter a bear market phase. And when that happens, these three wouldn't be the only energy stocks that are discounted and attractively valued.

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1. Dividend Stocks
2. Energy Stocks
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2. NYSE:CVE (Cenovus Energy Inc.)
3. NYSE:PBA (Pembina Pipeline Corporation)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:CVE (Cenovus Energy Inc.)
6. TSX:PPL (Pembina Pipeline Corporation)

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