3 Stocks For Looming Energy Sector Normalization

Description

The energy sector has been through a roller-coaster ride thanks to the pandemic. The demand slump when the pandemic was at its peak (2020) caused the value of oil futures to drop below the bottom line for the first time in recent history. The glut, which threatened to pull the sector down even more, dissipated in early 2021, and a supply crunch pushed the oil prospects (and along with the energy stocks) to new heights.

But the recovery momentum is finally dying down, and the normalization the sector is going through gives you access to plenty of great discount options within the sector.

A former aristocrat

Suncor Energy (TSX:SU)(NYSE:SU) is one of the largest energy companies in Canada and *the* largest player when it comes to oil sands. The company has various operations in North America, and it has entered the green energy scene as well. It enjoyed its fair share of sector-wide recovery and grew almost 57% in the last 12 months (from the beginning to the 2021 peak).

But the same time frame that went well for the capital appreciation potential of the company was bad for its dividends. During the 2020 crash, the company broke its stellar dividend streak and slashed its payouts, stepping down from the aristocratic status.

But it is making amends and has regrown its payouts quite near to its pre-pandemic levels. This has pushed the yield up to 5.6%, and the stock, which has already fallen 12.1%, might grow higher still; making it an attractive dividend buy.

An energy exploration and production company

The recovery momentum which swept the whole energy sector pushed many previously unattractive stocks to amazing new heights. One of those stocks is **Gear Energy** (TSX:GXE), a relatively small player in oil exploration and production which has grown over 860% from its market crash valuation.

The stock is not fundamentally strong like Suncor, but if it reaches its former depth during the correction (or beyond it), buying it for another growth spurt might be a smart move. The current valuation is quite attractive, and it might become even more so when the stock dips further.

The company has done a lot to become more financially stable and to reduce its debt. But the influx of organic capital relies upon the high demand for oil exploration, which is a relatively uncertain prospect.

A fuel retailer

Parkland (TSX:PKI) is the largest independent fuel retailer, not just in Canada, but in the Caribbean as well. What's more, it balances the energy side of its business (which has seen a lot of flux lately) with a convenience store chain.

Parkland stock has seen a very different pattern compared to the other energy companies. It grew/recovered 84% by January 2021 (from its market crash value), and has been on a decline ever since. It entered the normalization phase way before the rest of the sector.

Currently, it's a good buy from both a dividend and growth perspective. It's a Dividend Aristocrat that presently offers a 3.6% yield. But what's an even more compelling reason to consider buying this stock is its pre-pandemic capital appreciation history.

Foolish takeaway

A lot of investors choose the assets they invest in based on more than just the financial return they promise. They are interested in the ESG impact of their investments as well. And if you want to maintain a healthy ESG profile when it comes to your portfolio, you will need to be very discerning with your energy picks.

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