2 Cheap Energy Stocks to Buy Now

Description

Oil prices are at their highest levels for a long time. The WTI and Brent oil prices are at about US$110 per barrel, while the Western Canadian Select oil price is at above US$90 per barrel. While we don't know how long these outrageously high prices will last, we do know that many energy stocks will still make tonnes of money at lower oil prices. **Parex Resources** (TSX:PXT) is one of them.

This energy stock is cheap

Parex Resources is a Calgary-based company with assets in Colombia. In fact, it is the largest independent oil and gas company in Colombia with approximately 5.3 million net acres of land. It's led by a great management team that is focused on production and reserve growth on an absolute and per-share basis. Since its production is unhedged with exposure to the premium Brent oil price, it's not surprising that it enjoys industry-leading cash flow netbacks. What's more amazing is that management is doing all this without any debt.

The energy stock is generating so much cash flow that it began paying a dividend last year. And it just increased its quarterly dividend by 12%. The improved annualized payout of $0.56 per share equates to a decent yield of 2%.

Parex stock has a market cap of about $3.3 billion. Its 2021 revenue was US$1.06 billion with a gross profit margin of 62.4%, up from the normalized level of 61.8% in 2019. Its 2021 operating income was US$533.1 million with an operating margin of 50.4%, an improvement from 2019's 47.8%. Its 2021 net income was US$303.1 million with a slightly compressed profit margin to 28.7% versus 2019's margin of 29.5% due to higher income tax expenses. Its 2021 free cash flow generation was US$274.5 million (with capital spending and cash dividends accounted for).

At $27.78 per share at writing, the analyst 12-month consensus price target suggests the energy stock is undervalued by 26% or has 35% near-term upside potential. Since the quality energy stock is still moved by the underlying volatile commodity prices, interested investors could buy some now, buymore on dips, and potentially sell on rallies.

Parkland stock is a bargain

Parkland (TSX:PKI) gave an overview of its business on its website: “Parkland is Canada and the Caribbean’s largest, and one of America’s fastest growing, independent suppliers and marketers of fuel and petroleum products and a leading convenience store operator.” Higher gas prices across the board may be what has dragged the dividend stock down lately, as people may drive less in the near term.

After the dip, investors were coming back to their senses by bidding up the stock. After all, the company delivered strong 2021 results and even raised its dividend by 5.2%. This marks its 10th consecutive year of dividend increases. Notably, it’s changing from paying a monthly dividend to paying a quarterly one.

Some investors may be worried about Parkland’s junk S&P credit rating of BB (BBB- is considered investment grade), but not Barry Schwartz. Here are his recent comments on Parkland.

> “Doing everything right. Raising dividend. Reports tonight. Apathy in the name, and he doesn’t know why. Perhaps it’s its pace of issuing shares. Well on its way to almost double EBITDA by 2025. Lowest valuation ever, lots of value in the company. Not concerned about the leverage.”
> *Barry Schwartz, chief investment officer and portfolio manager at Baskin Wealth Management*

At $33.55 per share at writing, Parkland stock yields almost 3.9%. The analyst 12-month consensus price target represents 46% near-term upside potential.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:PKI (Parkland Fuel Corporation)
2. TSX:PXT (PAREX RESOURCES INC)

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