



Top 2 Energy Stocks for Canadian Investors to Buy Right Now

Description

Top TSX energy stocks have been quite turbulent of late, with oil prices fluctuating. Undoubtedly, many of the top Albertan oil producers are discounting the odds that WTI will remain above the US\$100 level for the long term. While it's nearly impossible to project where oil will be in a year or so from now, I think that the baked-in discount makes many energy stocks more than worth buying right now.

With Warren Buffett pounding the table on U.S. energy plays, I think the many young Canadian investors who've shied away from the space should look to the energy patch right now, if not for dividends of capital gains potential, for the added diversification benefits.

Indeed, commodity exposure can help reduce volatility in your portfolio at a time like this. Moreover, the Russian invasion of Ukraine could last far longer than expected. The implication on energy prices could be more severe. Further, I think the risk of a "higher-for-longer" type of energy environment poses more risk to one's portfolio, given the spillover effects of higher energy prices.

The Big Two energy stocks are must-buys today

Undoubtedly, fossil fuels are on their way out as renewables continue to take share. However, this process won't take just a few years. It'll take more than a decade, even as more electric vehicles hit the roads. The Ukraine-Russia crisis may have caused the one big boom in oil that I predicted many years ago. Though WTI has a ceiling at around US\$110-120, I think that the longer oil stays above US\$80-100, the more rally fuel many discounted TSX energy stocks will have.

Further, companies like **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) and **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)), which can slowly turn the spigot back on, have much in the way of operational improvement. That means their [economics](#) can improve alongside the windfall of higher oil prices. With solid managers, I think both firms will rally in the face of what's now looking to be a Goldilocks scenario.

It's the oil sands operators, in particular, that have a long-term [opportunity](#) to improve the underlying economics of their businesses. Who knows? They may even become more profitable than they were

come the next inevitable oil downturn.

Suncor

Suncor is an energy play that lost the lead, but it's still a wonderful integrated play. With activist investors pushing for change, I think hidden value could be unlocked, and the discounted energy stock could face a combo of higher energy prices and operational efficiency improvements.

In any case, Suncor's 1.8 times book value multiple makes no sense for those who think WTI will stay above the US\$80 mark. While there are some wrinkles to be ironed out, I'm a huge fan of activist involvement. It could push Suncor to be the best that it can be. Given the higher oil price environment, Suncor stock ought to trade at a much higher multiple.

Canadian Natural

Canadian Natural is the new oil king in town. Its management deserves a gold medal for keeping its dividend intact while pursuing opportunities during the 2020 oil downturn. Arguably, CNQ is the best in its breed. It's performed better than Suncor, and for good reason.

Though there may not be as much upside as the firm improves its economics, I still think the firm is a cash cow that's hard to ignore, as oil stays strong going into year's end. If oil stays above US\$100 through 2023, CNQ could prove severely undervalued. Yes, you'll pay more at 2.5 times book for the name, but you're getting best-in-breed operators.

CATEGORY

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:SU (Suncor Energy Inc.)

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