Canadian Oil Stocks Are Still Bullish

Description

Canadian oil stocks are rallying hard this year. For the year, the S&P/TSX Capped Energy Index is up 48%, which is remarkable given that other categories of stocks are down. Tech stocks are positively crashing, while financials and other sectors are modestly down.

It really seems like this year is the year of energy stocks. In fact, the gains have been so good that some are now wondering whether they've been too good to be true. What goes up must come down eventually, and Canadian oil stocks are beginning to look overheated to some.

Personally, I take the opposite view. Canadian energy stocks have definitely rallied, but their earnings have risen more than their stock prices have. Additionally, many oil stocks still haven't reached their 2018 prices, despite oil prices being higher now than they were then. This suggests that their stock prices may still have a ways yet to go.

Earnings rising more than stock prices

In 2022, energy companies' earnings are rising more than their stock prices are. This can be illustrated by looking at two notable oil companies' recent earnings results:

Suncor Energy (TSX:SU)(NYSE:SU) and **Cenovus Energy** (TSX:CVE)(NYSE:CVE). Both of these companies delivered solid results in their most recent quarter.

In its most recent quarter, Suncor's net income increased 259%, and its adjusted funds flow doubled. The company hiked its dividend 12% on the strength of these results.

In Cenovus's most recent quarter, it delivered $1.625 billion in net income, up 209%. It tripled its dividend, too!

As we can see, oil companies are confident enough in their future prospects to raise their dividends. More importantly, these companies' earnings are growing much more than their stock prices are, which suggests that they could rise more in the future.

2018 prices still not achieved

Another fact suggesting that energy stocks still have a ways to go is that many of these stocks haven't reached their 2018 prices. 2018 was the strongest year for oil in the "pre-COVID, post-2015 era," with WTI prices reaching $77 per barrel. That year, Suncor went as high as $55. It still hasn't reclaimed that level. Yet its earnings appear destined to greatly exceed what it pulled off in 2018. So, there is reason to think that if the next few quarters' earnings results are strong, Suncor could rise to at least $55.

Oil prices likely to remain strong

A final point to consider when looking at oil companies' prospects this year is the possibility of oil prices remaining high. We're almost in June, and yet still,

- Eastern European oil supplies are threatened;
- Global supply chains are jammed up;
- China is set to ease lockdown restrictions next month; and
- OPEC is only increasing output by tiny percentage points.

This all looks like a recipe for continued strength in oil prices. So, the oil trade is still good. It may not have reached its peak, and as long as prices just stay flat, we're likely to see big earnings beats from the major oil producers in the upcoming quarter.

CATEGORY

1. Energy Stocks
2. Investing

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:SU (Suncor Energy Inc.)

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