How to Invest in Canada’s Hot Energy Sector

Description

Canada’s energy sector has been witnessing a boom lately. Oil and natural gas contributed nearly $105 billion to the nation’s GDP (gross domestic product) in 2020, according to the data compiled by the Canadian Association of Petroleum Producers. It also supported nearly 400,000 jobs across the country that year — especially in provinces like Alberta, British Columbia, Saskatchewan, and Newfoundland and Labrador.

Apart from its huge economic contribution, the energy sector is also becoming red hot for stock investors in 2022. Before I discuss how you could invest in Canada’s hot energy sector to generate handsome returns on your investments, let’s take a closer look at why it has been attracting investors’ attention lately.

Canada’s energy sector is turning hot

The COVID-19 crisis badly affected oil and gas production and refining operations in the first half of 2020. In addition, the pandemic also resulted in a sudden crash in demand for energy products. While these factors badly affected the energy sector in Canada and erased the profit margins of most oil producers, the global crude oil demand has already started skyrocketing towards the pre-pandemic levels amid reopening economies in 2022.

In addition, the recent geopolitical tensions with the Russian invasion of Ukraine have resulted in supply concerns. These demand and supply factors are the main reasons why crude oil and natural gas prices have recently spiked to their highest levels since 2008.

Why invest in Canada’s energy sector now?

This strong commodity price environment is one of the key reasons why Canada's energy sector has outperformed the broader market and all other key sectors by a wide margin this year. Despite a 2.3% drop in the **S&P/TSX Composite Index** in 2022 so far, the shares of most oil and gas companies are trading with solid double-digit gains on a year-to-date basis.

Given this scenario, if you had some fundamentally strong energy stocks in your portfolio at the start of this year, you might already be sitting on huge profits. However, stock investing is not a short-term game. Instead, you should stay invested for the long term to realize its true potential. While the recent supply concerns might not last forever, the demand for energy products is expected to continue surging in the coming years and help oil and gas prices remain firm.

How stock investors can still benefit

Consistently rising demand and a strong price environment are likely to help oil producers expand their profitability further and push their shares even higher. That's why, even if you invest in the shares of fundamentally strong energy companies today, you can still expect handsome returns on your investments in the long run. Moreover, such energy stocks also reward their investors with good dividends. For example, **Suncor Energy** (TSX:SU)(NYSE:SU) could be one of such attractive energy stocks to start benefiting from Canada's hot energy sector. It currently has a decent dividend yield of around 3.5%.

In five years between 2016 to 2021, Suncor Energy's total revenue rose by 200% to $1.5 billion with the help of an overall improving business environment and its higher crude oil production. During this period, the company's adjusted earnings also improved by 84% to $1.78 per share. Its stock has already risen by more than 60% this year. But Suncor's long-life and low-decline assets, focus on consistently improving its infrastructure, and strong consumer channels still make it look very attractive for long-term investors who want exposure to Canada's energy sector.

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Date
2025/07/22
Date Created
2022/06/01
Author
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