2 Energy Stocks to Buy During a Correction

Description

If you consider the meteoric rise of the **TSX Energy Index** — about 496% from the depths of 2020, it's pretty easy to see its more growth than the crash and subsequent recovery alone could have accounted for. At first, it was the uncertainty in the market and the oil producers continuously missing the demand with their production capacities.

The supply crunch was more potent for the sector's growth than the low demand was for the sector's decline during the height of the pandemic. The price hikes worked in favour of the energy companies around the globe, and Canadian energy giants, especially producers, saw excellent stock returns.

The geopolitical conflict involving one of the largest oil producers in the world is the catalyst for the sector's growth.

However, the higher it rises, the harder the fall will most likely be, especially if the price of crude falls inorganically. It can easily happen if the market is flooded with oil or another wave of the pandemic cause a massive slump in demand. And a thorough correction might be the perfect time to buy certain energy stocks.

A senior oil and gas producer

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is a senior oil and natural gas producer in Canada with an impressive portfolio of assets. Most of its assets are in North America (oil and natural gas). The international operations are near the U.K. and in Africa (offshore) and focused primarily on oil.

The stock has some characteristic strengths, and they were pretty apparent, even before the pandemic. It was one of the few energy giants on the TSX. It was one of the few stocks that recovered after the sector-wide decimation in 2014 and was trading relatively near its pre-recession peak in 2018.

After the pandemic, the stock saw growth that belied its massive size. Its growth since the 2020 crash has been 589%, and it's still undervalued, thanks to its impressive financials. Even more attractive is the stock's decent 3.58% yield, despite such a huge spike. And if you buy during the correction, you will lock in a much more potent yield.

The pipeline giant in North America

Enbridge (TSX:ENB)(NYSE:ENB) has become a relatively stable (somewhat cyclical) stock. Even in 2020, when the crash took the whole sector to new depths, Enbridge's fall was 34%, and it has already recovered. It also didn't ride the recovery train to new heights and is currently trading at a 4% premium from its pre-pandemic peak.

This means that even if a correction does happen, the stock might not fall as hard as other companies in the sector. However, even a relatively small dip during the correction can push the yield, which is already at an attractive number (5.89%) — much higher. The subsequent slow but relatively reliable capital appreciation will be the bonus.

Foolish takeaway

Even though a correction is overdue, it might be challenging to pin down the exact time. Instead of going down, the price of oil might continue to rise, which might keep the momentum going for a few more months, maybe even till the end of 2022.

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Date
2025/07/21
Date Created
2022/06/04
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