



2 Energy Stocks to Buy as Oil Prices Remain in Overdrive

Description

The Russia-Ukraine created a supply and demand imbalance that achieving stability in supply chains might take longer. As of this writing, Brent and West Texas Intermediate (WTI) crude prices per barrel are US\$121.70 and US\$120.20, respectively.

Stephen Schork, the principal at Schork Report, even says that oil has a strong shot at hitting US\$150 per barrel. With oil prices trending higher, the bull run of [energy stocks](#) like **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) and **Cenovus Energy** ([TSX:CVE](#))([NYSE:CVE](#)) will likely continue throughout 2022.

Tight spare capacity

The Organization of the Petroleum Exporting Countries (OPEC) and its allies have decided to end their output cuts. On June 2, 2022, the oil cartel announced it will increase production to 648,000 barrels per day (bpd) in July and August this year.

However, industry analysts believe the boost will not make up for the potential loss from Russia (more than one million bpd). Instead of a drop following the OPEC+ announcement, oil prices rose. The reason is the tight spare oil production capacity. Only a few member countries can actually boost oil production in a tangible way, and therefore, their combined spare capacity won't be good enough.

Paul Sankey from Sankey Research said Saudi Arabia must make choice on whether to let prices go higher or target almost zero spare capacity. According to a Barclays report, the country should produce 11 million bpd by the end of summer to bring the real spare capacity to 1.5% of global demand. However, Saudi Arabia has never produced the said volume for an extended period of time.

Soaring profits

Suncor Energy has risen 35.9% since reporting its Q1 2022 earnings results on May 3, 2022. At \$52.78 per share, the trailing one-year price return and year-to-date gain are 81.67% and 70.1%, respectively. Had you invested \$20,000 in the oil sands king on year-end 2021, your money would be

worth \$34,018.69 today.

In Q1 2022, the \$74.6 billion integrated energy company reported adjusted operating earnings of \$2.755 billion — a 269.3% increase from Q1 2021. Suncor's net earnings for the quarter ballooned 259.2% year over year to \$2.949 billion. The company is well positioned to optimize full-year production and plans to pursue highly economic investments in areas that complements its base business.

Management recently announced a 12% dividend increase, its highest quarterly dividend hike ever. If you invest today, the yield is 3.56%.

Proposal for a diverse energy mix

Cenovus Energy is among TSX's high flyers so far in 2022. At \$30.09 per share, the energy stock is up 94.84% year to date. Management tripled its dividend after reporting a \$1.625 billion profit in Q1 2022. The current dividend yield is now 1.4%. In the quarter ended March 31, 2022, free funds flow increased 209% year over year to \$1.837 billion.

Cenovus CEO Alex Pourbaix said the current energy crisis shows that wind and solar can't quickly replace oil and gas. He added that the phase-out of fossil fuels is not the solution. Instead, he proposes a diverse energy mix (oil & gas, hydrogen, renewables, and nuclear power) in the next three decades.

Superior returns

Suncor and Cenovus could deliver superior returns from price appreciation and dividend growth if oil prices remain in overdrive.

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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