2 Energy Stocks I’d Buy for Passive Income and Turnaround Upside

Description

The broader basket of energy stocks slipped into correction territory, thanks in part to recent weakness in the price of oil. Though it seems like a blow-off top for various commodities, I’d argue that the macro picture still allows for a “higher-for-longer” environment.

Indeed, worrying about US$100 per barrel of oil probably would have been out of the question just two years ago. Though oil is ridiculously volatile and could go either way based on the outcome of exogenous events, I’d argue that the pullback in oil is more than worth owning as a great portfolio hedge and for the slightly higher yields versus two weeks ago.

The energy rally could still have room to the upside

The Ukraine-Russia crisis is likely to keep oil prices elevated by some amount. Though the slow and steady tumble into an economic slowdown or recession could bring oil back below that US$100 mark, a strong case could be made that oil could settle in the US$65-90 range over the next few years.

Yes, that’s much lower than where oil finished today (US$108 per barrel). However, many well-run oil producers will continue to rake in the cash flow at such levels. Thus far, producers have stayed disciplined on production. Although U.S. president Joe Biden could put forth measures to curb the profitability prospects of big oil, I’d argue that despite the risks, zero exposure to energy is riskier than an overweighting in this type of environment.

Energy stocks are a great value after a bear market pullback

Like it or not, inflation could linger for longer. And those without exposure to the wildly profitable energy companies may be missing out on one of the last sectors that can work in today’s stagflationary environment.

In this piece, we'll look at **Cenovus Energy** (TSX:CVE)(NYSE:CVE) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ).

Passive-income pick #1: Cenovus Energy stock

The latest 26% slide from peak to trough seemed violent for investors who bought the stock for the summer. However, the bear market moment was just a blip compared to the bull run behind it. Despite the recent plunge, shares of the integrated energy firm are up nearly 120% over the past year. While momentum can reverse on itself in a hurry, I'd argue that this recent dip is more of a buying opportunity than a signal to exit and take profits.

Cenovus is more sensitive to the price of oil versus your average oil and gas play. Though a pullback below US$100 could see shares retest the $20-per-share level, I'd argue that today's valuation isn't all that bad, given Cenovus is a significant beneficiary of the oil windfall. Further, the stock looks discounted at 26.4 times trailing earnings. Even if oil were to plunge to US$65 in the medium term, Cenovus is still poised to continue making the most of its unforeseen tailwinds.

The 1.66% dividend yield is far lower than its peers. That said, I'd look for way more in the way of dividend growth, as Cenovus finds itself with more cash than it knows what to do with.

Passive-income pick #2: Canadian Natural Resources stock

For those seeking more passive income for a lower valuation, it's hard to top Canadian Natural Resources — the new king of the Canadian oil patch. The stock trades at a mere 8.7 times trailing earnings, with a 4.4% dividend yield after spilling over more than 20% in the latest energy correction.

While further gains from the energy rally could be surrendered, I'd argue that today's multiple severely undervalues the firm's cash flow generation over the next 18 months. Pending a complete oil price collapse, CNQ stock stands out as a great bargain for Canadian investors seeking value, passive income, and a good shot at a near-term bounce.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:CVE (Cenovus Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:CVE (Cenovus Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. joefrenette
2. kduncombe

Category

1. Energy Stocks
2. Investing

Date
2025/08/16
Date Created
2022/06/28
Author
joefrenette