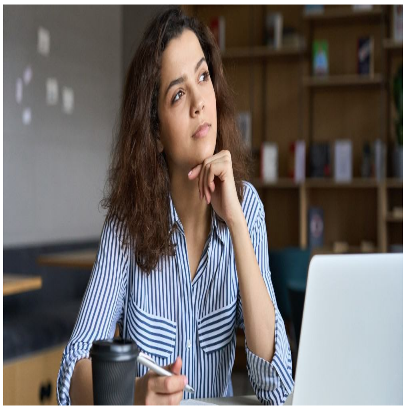

Energy Stocks Dip: To Buy or Not to Buy?

Description

Energy stocks have been winners in the last year on high commodity prices. Some investors believe we're in a late cycle now, and so, it's not a good idea to invest in energy stocks. Others are buying the dip, as news of tighter supply can elevate these stocks — at least in the short term.

It's not easy to trade energy stocks, because their earnings and cash flows can be highly unpredictable. This year, many are set to continue experiencing strong earnings and cash flow because of strong commodity prices, but their strength can vanish quickly as soon as commodity prices start turning. Surely, the world cannot operate well on such high energy prices. Eventually, energy prices will need to return to normalized levels.

For now, with WTI and Brent crude oil prices at +US$100 per barrel, many energy stocks are trading at very cheap valuations. **Whitecap Resources** (TSX:WCP) stock is one of them.

Whitecap Resources stock

At $9.22 per share, Whitecap Resources stock trades at about 3.3 times earnings and 3.4 times cash flow. Its cash flow per share jumped 69% last year and can experience another double-digit lift this year. The company has shared profits with its shareholders by raising its dividend twice in the last 12 months, equating to a year-over-year increase of about 88%. The dividend hikes are a nice bonus on top of the 46% price appreciation in the period. The stock yields 3.9%.

Not surprisingly, the company has been able to improve its balance sheet in this favourable operating environment, primarily from high energy prices. Its debt-to-assets ratio is 43% versus 63% a year ago.

According to Yahoo Finance, analysts believe the energy stock should be worth $13-20 per share over the next 12 months. The consensus price target of $15.20 implies upside potential of approximately 65%.

Investors who don't want to take the chances by relying on energy prices can consider energy infrastructure stocks like **TC Energy** (TSX:TRP)(NYSE:TRP).

TC Energy stock

As a large energy infrastructure company, TC Energy's earnings and profitability has been highly stable through economic cycles. This is why the Canadian Dividend Aristocrat doesn't trade at a steep discount as many other energy stocks like Whitecap Resources.

TC Energy even has positive retained earnings, which cannot be said for most other energy stocks. Because of the defensive nature of its business, it rightly trades at a much higher multiple than other energy stocks.

What investors can get from TC Energy stock today is paying a reasonable valuation for a stable dividend. The dividend stock yields about 5.3% at $68.28 per share at writing. Going forward, it has the ability to continue increasing its dividend at a rate of about 3-5%.

According to Yahoo Finance, analysts believe the energy stock should be worth $53-80 per share over the next 12 months. So, it has about 22% downside risk according to the most bearish analyst. The consensus price target of $72.25 implies a fairly valued stock.

TC Energy should give peace of mind to investors that are looking for passive income. However, the stock isn't cheap. A further correction to $57 per share or lower would be a good opportunity to buy the dip.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)
3. TSX:WCP (Whitecap Resources 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. kayng
2. kduncombe

Category

1. Energy Stocks
2. Investing

Date
2025/09/14
Date Created
2022/06/28
Author
kayng