Are Energy Stocks Now Oversold?

Description

The sharp pullback in the share prices of oil and natural gas producers has investors who missed the big rally wondering if this is a good time to add energy stocks to their TFSA and RRSP portfolios.

Oil market

WTI oil trades near US$110 per barrel at the time of writing. That's up more than 50% year to date, despite the dip from the March and June highs above US$120.

The recent dip in the price of oil came as a result of rising concerns that aggressive efforts by the United States and other countries to fight inflation will trigger a deep recession and cause oil demand to drop. A global economic slowdown is likely, but that doesn't mean fuel demand is going to stop rising.

Airlines continue to add capacity to meet recovering demand for travel. This is pushing up the need for jet fuel. On the ground, corporations around the globe are bringing workers back to the office for two or three days a week. This will put millions of more vehicles on the highways, and many of these commuters will be driving a lot more than in the past after the massive exodus out of downtown cores to suburban communities over the past two years.

At the same time, countries are using more oil to produce electricity as a result of soaring liquified natural gas (LNG) prices or the lack of reliable natural gas supplies due to sanctions on Russia and other disruptions.

OPEC has limited capacity to ramp up oil output in the near term due to major cuts in investments over the past two years. Producers in Canada and the United States are only investing the capital required to maintain production, as they channel excess cash to pay down debt and return funds to shareholders through higher dividends and share buybacks. Pressures to meet ambitious net-zero targets as part of new ESG goals make it hard for Western oil companies to initiate large production expansion projects.

Sanctions against Russia will likely remain in place for at least as long as the war in Ukraine continues, and some analysts say that could be another year or more depending on how much support Ukraine continues to receive from the United States and other countries.

All said, the era of high oil prices looks set to continue for several months, if not years, and the market highs for this cycle could still be on the way.

Are energy stocks undervalued?

At US$100 per barrel, oil producers are generating significant profits. The steep drop in valuations appears overdone, and stock prices could take off again as oil resumes its upward trend and Q2 2022 earnings results bring record profits and new announcements of dividend increases and share buybacks.

Suncor Energy (TSX:SU)(NYSE:SU), for example, trades close to where it did in early 2020 when oil was just US$60 per barrel. All things being equal, the stock appears undervalued and now offers a solid 4% dividend yield.

Volatility should be expected, but the recent pullback provides oil and gas bulls with an attractive opportunity to add energy stocks to their portfolios.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor 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. aswalker
2. kduncombe

Category

1. Energy Stocks
2. Investing

Date
2025/08/19
Date Created
2022/07/02
Author
aswalker