Crude Oil Falls Below $100: Should You Exit TSX Energy Stocks?

Description

Crude oil's ugly start to July pushed the world's most traded commodity to its two-month lows. While oil continues to be volatile, a wide range of price targets have started coming in. **Citi** sees crude oil at US$65 by the end of 2022, while **JP Morgan** has a price target of US$380 a barrel in the worst-case scenario. Amid the chaos, TSX energy stocks have felt the heat, plunging in the range of 15-30% in just a matter of a few weeks.

What's next for oil and gas stocks?

Recession risks have significantly increased in the last few weeks due to runaway inflation and fast-rising interest rates. As a result, crude oil could see a dent in energy demand in case of a recession.

However, there are far too many reasons to be bullish on crude oil and energy stocks.

First and foremost, crude oil demand has fallen only in the worst of recessions in the past. The possibility of such horrid collapses looks thin, at least at the moment. Also, we are mainly struggling on the supply front. So, even if the demand falls, supply constraints will still likely be there, which could support higher energy prices.

Also, the ongoing war in Europe could continue to boost supply strains in the global energy markets. Russia has already threatened to cut down on production if its crude oil is capped as per Europe's and the U.S.'s plans.

Russia is the third-largest crude oil producer globally, and more than 10% of the global supply comes from it. So, putting a price cap on Russian crude may not dent it much due to its strong financial position. However, retaliatory action from the Kremlin might send ripples through the global energy markets.

TSX energy stocks still top the charts

Despite the recent weakness, TSX energy stocks are among the very few bright spots in the broader markets. TSX oil and gas names are sitting at a gain of 35%, while the **TSX Composite Index** has lost 12% so far in 2022.

At the same time, TSX energy producers look well placed to report another blockbuster quarter. They reported mind-boggling numbers in Q1 2022, when crude oil averaged around US$95 a barrel. In Q2 2022, oil averaged close to US$110 levels, which could see a significant surge in their earnings and free cash flows for the quarter.

Suncor Energy (TSX:SU)(NYSE:SU), Canada's oil sands giant, has returned almost 40% this year. It has generated $7.7 billion in free cash flows in the last 12 months, a remarkable recovery after the pandemic. Suncor will likely see superior free cash flow growth when it reports Q2 numbers next month. A large portion of it could go to deleveraging and higher dividends. Because of the aggressive debt repayments, Suncor's balance sheet strength has notably improved since the pandemic.

Canada's largest oil company by market cap, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) is no different. Its net income more than doubled in Q1 2022 year over year. Also, the company doubled its dividend to $3 per share for 2022 compared to 2021. There will likely be more shareholder value creation with superior Q2 2022 performance.

I still think energy stocks offer decent growth prospects after the recent weakness. That's because superior balance sheet health, strong earnings growth prospects, and undervalued stocks are some of the key ingredients for shareholder value. Also, a steep fall in crude oil prices below US$90 looks like a remote possibility.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. 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. kduncombe
2. vinitkularni20

Category

1. Energy Stocks
2. Investing

Date
2025/08/18
Date Created
2022/07/06
Author
vinitkularni20