1 of the Best TSX Energy Stocks to Buy on the Dip

Description

TSX energy stocks have been quite the wild ride over the past few weeks, with oil now down over 20% from its high just north of US$120 per barrel. As oil stabilizes in the US$95-100 range, the beaten-down energy stocks may finally have the means to go higher. Undoubtedly, commodities are incredibly volatile. That can make it tough to hang onto many energy plays that tend to swing up and down based on unforeseen exogenous events.

In any case, energy stocks still stand out as terrific bets at today's valuations. With the Federal Reserve injecting a ton of confidence into markets during its Wednesday meeting (Fed chair Jerome Powell doesn't believe we're currently in the midst of a recession), oil may have legs to breach the US$100-per-barrel level once again.

Indeed, many of today's fossil fuel plays are on the wrong side of a long-lived secular trend that sees dirtier forms of energy being replaced by renewable sources. Wind, solar, and hydro may very well be the way of the future. However, oil and gas are unlikely to see demand plummet to zero anytime over the near term.

TSX energy stocks still seem too cheap

The transition to green energy will be very gradual, and it's one that could span decades, as many firms look to go carbon neutral anywhere from 10 to 30 years from now. Now, this gradual transition could wane on filthier forms of fossil fuels. With Russian supply taken off the market, it's domestic energy that could have a premium slapped on for the long haul. Pundits estimate the Russia-Ukraine crisis has added anywhere from US$10 to US$25 to each barrel of oil. I think the premium on oil is closer to US$20-25.

Even if a recession knocks down oil prices by a few bucks, the premium should be enough to keep many producers elevated, as they rake in impressive amounts of free cash flow. Such cash will be reinvested in growth projects, but much of it will go right back into shareholders' pockets in the form of dividend increases.

Warren Buffett has been incredibly bullish on oil over the last several months. He sees value in the space, and I think he's right on the money.

Cenovus Energy: Just getting started as oil looks to trend higher again?

I'm a big fan of **Cenovus Energy** (TSX:CVE)(NYSE:CVE), an oil-price-sensitive integrated energy producer that could continue leading the upward charge. During its last quarter, sales surged 74%, thanks in part to the energy price windfall. The unprecedented strength gave management the confidence to triple its dividend.

Looking ahead, such generous triple-digit percentage hikes are out of the question. However, I wouldn't rule out high double-digit percentage dividend increases, as the firm continues to feel industry tailwinds to its back while improving operational efficiencies.

The company currently boasts an operating margin of 11.4%, which is well below the integrated oil and gas industry average of 18.2%. ROIC (return on invested capital) is also on the lower end at 4.2% versus the 5.55% industry average. For 2022, Cenovus expects to spend $2.9-3.3 billion on various initiatives, including the Superior Refinery rebuild. Once the rebuild is complete, I expect Cenovus could improve upon its operational efficiency metrics meaningfully.

At writing, CVE stock looks incredibly cheap at 0.8 times price-to-sales (P/S) multiple, which is slightly below the industry average of one times P/S.

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