



3 Rising Energy Stocks to Buy as Oil Hits 6-Month Low

Description

Oil hit a six-month low last week, losing nearly 25% of its value since peaking in March 2022. However, Brent and West Texas Intermediate crude rebounded mid-week due to renewed gasoline demand and U.S. inflation falling more than forecast. In Canada, traders trimmed their bets that the central bank will implement another super-sized rate hike next month.

A smaller increase is possible despite Governor Tiff Macklem's pronouncement that inflation will remain painfully high. But for Andrew Kelvin, chief strategist with the **Toronto Dominion Bank**, increasing the policy rate by 75 basis points is the right thing to do.

Meanwhile, [energy stocks](#) should regain momentum due to the tightening oil market. Rising stocks like **Cenovus Energy** ([TSX:CVE](#))([NYSE:CVE](#)), **Birchcliff Energy** ([TSX:BIR](#)), and **Peyto Exploration & Development Corp.** ([TSX:PEY](#)) are strong buys today. The three Canadian oil firms reported strong operational and financial results in Q2 2022. Their shares also are up more than 40% year to date.

Another step forward

Alex Pourbaix, President and CEO of Cenovus, said, "We're well-positioned for even better performance in the second half of the year as our assets return to operating at normal rates across the portfolio." In Q2 2022, free funds flow and cash from operating activities increased 77% and 118%, respectively, versus Q2 2021.

The quarter's highlight was the 986% year-over-year jump in net earnings to \$2.4 billion. Pourbaix adds, "We executed on our commitment of returning 50% of excess free funds flow to shareholders in the quarter." On the **TSX**, Cenovus is outperforming the broader market year to date, up 43.3% versus a decline of 6.3% for the big board. At \$22.11 per share, the trailing one-year price return is 124%, while the dividend yield is 1.9%.

This \$41 billion oil and gas company will soon own 100% of BP-Husky Toledo Refinery in Ohio. Management said it marks another step forward in Cenovus' long-term strategy to integrate its heavyoil production with refining capability.

Soaring profits

Oil and gas companies Birchcliff and Peyto are winning investments so far in 2022. BIR stock is ahead 60.6% year to date (YTD), while PEY's gain is 32.5% YTD.

If we go a little further back, over a one-year time period, BIR is up a staggering 115.8%, and Peyto is up 83.5%. Peyto pays an attractive 4.5% dividend compared to the modest 0.77% yield of Birchcliff.

In Q2 2022, Birchcliff's petroleum and natural gas revenue and net income rose 104% and 388%, respectively, versus Q2 2021. Notably, free funds flow saw incredible growth of 2,064% year over year to \$201.3 million. Its CEO, Jeff Tonken, is confident that Birchcliff will reach zero total debt and be in a cash surplus position in Q4 2022 because of the strength of forward commodity prices.

Like Birchcliff, Peyto reported impressive quarterly numbers. In the three months ended June 30, 2022, revenue and earnings increased 119% and 641%, respectively, versus the same quarter in 2021. Funds from operations reached \$205.9 million, a 151% increase from a year ago.

The \$2.3 billion company is extremely bullish on natural gas prices for the rest of 2022 and beyond. Because of commodity strength and robust cash flows, Peyto plans to deploy approximately 50% of funds flow into capital projects.

Further climb

Analysts at **Goldman Sachs** predict that oil prices will rise between US\$110 and US\$130 per barrel by year-end. At these prices, expect energy stocks to climb further if there's no dramatic shift in the oil supply situation.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:BIR (Birchcliff Energy Ltd.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:PEY (Peyto Exploration & Development Corp)

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