Energy Rebound: Top 2 Undervalued Oil Stocks to Buy

Description

The price of oil has dropped precipitously since June. However, the commodity has staged a comeback in recent weeks, surging beyond US$94 per barrel again. Economists believes the global oil market is still undersupplied. Meanwhile, OPEC (Organization of Petroleum Exporting Countries) has indicated that it could cut production to stabilize the price of oil.

Even if the energy market remains rangebound at these levels, oil-producing companies could generate significant cash flows. That's why oil stocks should be on the radar of every value investor in 2022. Here are the top two undervalued oil stocks you should watch.

Oil stock #1

ARC Resources (TSX:ARX) has outperformed the overall market by a wide margin, given its relatively smaller size. The producer and distributor of crude oil, natural gas, and natural gas liquids has benefited from an uptick in commodity prices amid supply constraints and high demand.

While the stock has shed close to 20% in market value from its 2022 highs of about $22 a share, it is still up by more than 50% year to date, outperforming the TSX, which is down by about 10%.

The company is well positioned to generate significant revenues, with oil prices above the $90 a barrel level.

Recently the company posted a net income of $762.9 million, an improvement from a net loss of $123 million for the same quarter a year earlier. In addition, the company posted a record free funds flow of $677 million, or $1 a share.

Growing economic activity should fuel strong demand for oil and natural gas, which should see strong demand for ARC Resources's core products, leading to more revenues and cash flow for distribution. The company has already confirmed that $80 million is to be distributed through dividends. Last quarter, it also repurchased $326 million in shares, affirming its commitment to returning value to shareholders.

With a 2.69% dividend yield, Arc Resources is an ideal play for anyone looking to generate some passive income. Additionally, the company is trading at a discount with a price-to-earnings multiple of eight. Finally, the 20% pullback from 52-week highs makes it an ideal bounce-back play.

Oil stock #2

Suncor (TSX:SU)(NYSE:SU) operates one of the largest petroleum resource basins in the world. Consequently, the company has benefited a great deal as oil prices rallied to highs of $124 a barrel. As a result, the stock rallied to $53 a share. However, while oil prices have pulled back below the $100-a-barrel level, so has the stock price, shedding close to 24% in market value.

Despite the steep pullback, Suncor Energy has still outperformed the overall market, delivering a 29% year-to-date gain. Even with oil prices tanking below the $100-a barrel level, Suncor should see significant free cash flows.

The company is fresh from delivering solid second-quarter results, which were characterized by record adjusted funds from operations of about $5.3 billion, or $3.80 a share, up from $2.362 billion for the same quarter last year. In addition, adjusted operating earnings increased to $3.814 billion, or $2.71 per common share, from $722 million, or $0.48 a share, a year ago.

In addition to stellar earning results, Suncor also boasts a hefty dividend yield of 4.60%. That's ideal for anyone seeking to generate some passive income. Buoyed by high commodity prices, the company's board of directors raised dividends by 100% late last year and introduced a 12% dividend hike in the first quarter. The fact that the company is also buying back stock affirms its focus on returning optimum value to shareholders.

That said, Suncor is an ideal pullback play after the recent correction from 52-week highs. With oil prices above $90 a barrel, the company is well positioned to generate significant free cash flow. That should support its attractive dividends.

CATEGORY

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