TSX Energy Stocks Still Gushing With Cash

Description

The top TSX energy stocks may have taken a bit of a breather after rallying with fury for more than a year now. Undoubtedly, the weakness in WTI (West Texas Intermediate) prices comes at a time when most are a tad jittery over the coming economic recession. With an economic downturn comes a slowdown in demand for energy. Still, with the Ukraine-Russia crisis, WTI prices may have the means to remain well above US$75 per barrel, given a major global supplier will stay offline.

Energy is here to stay

Though energy stocks aren't the most attractive of long-term investments, given the secular rise of renewable energy and net-zero goals, there are still many decades to go before oil becomes a thing of the past. Further, emerging market demand for fossil fuels is unlikely to fade away just because wind and solar are preferable energy sources.

Finally, higher rates mean such expensive sustainable energy projects could hit a bit of a snag. Though many firms are en route to going carbon neutral at some point over the next few decades, it's clear that there's still a lot of investment to be made before the world lowers its dependence on oil in a way that drives fossil fuel prices sustainably lower.

Simply put, energy isn't going anywhere overnight, and it's the cheap TSX energy stocks that could have more room to run, as they continue to benefit from the "higher for longer" energy environment. At just north of US$90 per barrel, oil has stayed relatively resilient in the face of a downturn.

In this piece, we'll have a look at **Suncor Energy** (TSX:SU)(NYSE:SU) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), two heavy oil heavyweights that still seem discounted given the windfall of higher oil prices is unlikely to back down anytime soon. Even with a recession considered, now's not a great time to bet against Canada's oil patch.

Suncor Energy

Suncor Energy is a Canadian energy kingpin that's traded at quite a discount since passing the torch over to Canadian Natural a few years ago. The company may not be firing on all cylinders, but it has still been benefiting profoundly from higher energy prices. With activists pushing for positive change, Suncor may finally have the incentive to be the best that it can be. Even if it can't improve upon efficiencies, the valuation still seems absurdly depressed.

Yet Suncor is improving operating efficiencies. Following a decade of negative operating cash flows in all but three years, cash from operating activities jumped 58% in the first half of 2022 over the year-ago period. While the higher energy prices undoubtedly helped, Suncor also produced higher upstream production and refinery throughput. The higher cash flows supported the company's highest dividend per share and rate of share repurchases in Q2 2022.

The stock trades at just 1.4 times price-to-book (P/B), below the industry average of 2.6. With such prized assets, I think investors are getting a tonne of upside for the muted price of admission. The 4.2% dividend yield is also slated to grow at an above-average rate over time.

Canadian Natural Resources

Canadian Natural is the new king of the Canadian oil patch. Despite rising 80% over the past year, the stock still trades at a ridiculous single-digit price-to-earnings (P/E) multiple of 7.6. Indeed, investors just don't see CNQ continuing to blow away the numbers moving forward. Though oil has retreated, CNQ still has the means to impress going into year-end, especially now that analysts have slightly lowered the bar.

Management credits strong operating performance for its robust cashflows in 2022. This low-cost oil producer also boosted operating cash flows by 58% in the first half, to $8.7 billion. In addition to a quarterly dividend increase, CNQ plans to continue to allocate 50% of cash flows to share repurchases.

With a 4.1% dividend yield and a modest 26.2% payout ratio, CNQ has the means to really raise the bar on its payout as it looks to enjoy what could be many more quarters of spectacular results.

Foolish takeaway

With the gushing cash flows, upstream players like Suncor and Canadian Natural Resources are better positioned to prepare for the energy transition towards decarbonization. As oil and gas producers lower debt, and could even become debt-free, they are likely to increase low-carbon capital expenditures on carbon emissions reductions, speculates a recent report from Deloitte forecasting record global upstream cash flows in 2022.

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