3 Oil Stocks I Like for September

Description

Oil stocks are coming back into fashion.

Over the last week, oil prices have rallied 6.3%, and oil stocks have gone up along with them.

The gains in the TSX energy index (i.e., the energy stocks listed on the Toronto Stock Exchange) haven't quite kept up with the price of crude, which may signal cheap valuations. Since August 23, the TSX energy index has risen only 2.9%, lagging the rise in crude prices, but it should make more gains if rising oil prices translate to higher earnings.

On that note…

A lot of energy companies are putting out excellent earnings this year. Fueled by higher oil prices and debt repayment, they've been making more money than ever before. In this article, I will explore three such stocks I'd happily buy — including one I own today, and another I held briefly earlier this year.

Cenovus Energy

Cenovus Energy (TSX:CVE)(NYSE:CVE) is a Canadian oil company I've been saying a lot of positive things about this year. Its stock has risen about 6.3% over the last week, so it's matching the gains in the price of oil.

I think that, if the price of oil remains high, Cenovus will eventually go on to beat the price appreciation in the raw commodity it sells. Mathematically, the percentage change in profit when sales rise above costs, is faster than the rise in sales itself. Cenovus Energy is in an admirable position to grow its sales while also reducing its costs. In every quarter this year, it has paid off a significant amount of debt, which paves the way for profits to grow even if oil prices don't rise. And if oil prices do rise? Then the effect will be even greater still.

Occidental Petroleum

Occidental Petroleum (NYSE:OXY) is one oil stock that I currently hold in my portfolio. I don’t own a lot of it, but I may add more in the future.

Occidental Petroleum owns a lot of oil in the highly productive Permian Basin. The Permian Basin is an oil field that produces high quality crude oil that is relatively easy to extract. Because OXY is based in the Permian basin, with a lot of valuable oil fields, it has a relatively low breakeven oil price. It only takes $40 per barrel of crude oil for Occidental Petroleum to break even, it takes prices as high as $45 for many of its competitors to break even. So, OXY is in an enviable position regardless of what happens with the price of oil this year.

Suncor Energy

Suncor Energy (TSX:SU)(NYSE:SU) is a Canadian integrated energy company that extracts and sells crude oil. It makes money off of refining and selling crude oil, and operating gas stations. Selling oil and gasoline becomes more profitable as oil prices rise. That’s less the case with refining, but on the whole, integrated energy companies like Suncor tend to make more money when oil prices rise.

The proof is in the pudding: in its most recent quarter, Suncor delivered $16.1 billion in revenue, up 76%, and $4 billion in earnings, up 360%. I’ve held this stock in the past, and I’d be comfortable holding it in the future — I just don’t like it quite as much as OXY.

CATEGORY

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1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:OXY (Occidental Petroleum Corporation)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:CVE (Cenovus Energy Inc.)
5. TSX:SU (Suncor Energy Inc.)

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andrewbutton