Why New Investors Should Buy Oil Stocks (With Huge Dividends) Right Now

Description

With the rise of renewable energy, oil stocks continue to be shunned by many of today's young investors. Why bet on filthy fossil fuel producers when you can double-down on a more ESG-friendly renewable energy power play? Indeed, it's tempting to pass up on the oil stocks and dub them as on their way out. Many of today's top oil producers are slowly ramping down production over time, even amid higher energy prices. From upstream to downstream, many energy firms are dipping their toes in the green energy waters so that they'll continue to be relevant over the next several decades.

Though green energy is cutting into the turf of fossil fuel demand, it's worth noting that oil isn't going anywhere anytime soon, especially with the Ukraine-Russia crisis impacting the global oil supply. The transition to renewable energy could take decades. Many firms need 20 years or more to reach carbon neutrality.

Indeed, oil will play a critical role in global energy demand for the next half-century. And with that, the energy giants still have plenty of cash-rich days ahead of them. Sure, young ESG investors may not want to touch oil stocks with a barge pole. However, at today's valuations, I do think there's a lot to gain by gaining some exposure. Not only do they offer juicy dividends, with above-average growth prospects amid higher energy prices, but they can also offer a less-correlated return for your portfolio amid the market turmoil. By investing in assets with little or no correlation to one another, you can lower the risk of having too high of exposure to one asset class.

Rates are rising, and they could surge much higher. The days of easy money for unprofitable tech firms with nothing more than a story to go by are all but over. These days, firms need to generate real profits and cash flows. Energy stocks are a great way to gain such exposure on the cheap!

Suncor Energy

Suncor Energy (TSX:SU)(NYSE:SU) is an Albertan energy kingpin that we're all familiar with. The stock trades at a relative discount to its peer group. With a sub-par safety track record, Suncor has been the subject of activist pressure of late. Following changes to upper management, Suncor hopes to improve upon safety while also driving operational efficiencies. Indeed, I've noted that safety and efficiency are not mutually exclusive and that Suncor's goals are more than achievable over the next year.

Despite the promising trajectory and higher energy prices, Suncor continues to trade at a rock-bottom multiple. At writing, shares go for just 3.6 times price-to-cash flow (P/CF), making it one of the cheapest stocks on the TSX (in my opinion) based on cash flows.

While the recent retreat in WTI could be a source of fading earnings, Suncor stock seems to have more than just the modest plunge baked in. Pending a plunge below US$55–60 WTI, Suncor seems like a bargain at current levels. The dividend (4.6% yield) is growing fast.

The bottom line for investors

Suncor is just one cash cow of a value stock worth picking up amid the market rubble. It's a Canadian energy behemoth that has what it takes to rally through a recession. The stock is down around 23% from its high and seems ripe for picking for new investors seeking resilient cash flows for less.

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