2 Top Energy Stocks to Own if an Oil Slump Comes Next

Description

Energy stocks sold off last week as crude oil prices fell to their lowest since January 2022. The top-performing sector suffered a 7.8% price drop in response to the bearish sentiment in oil markets, which tumbled below US$80 per barrel. None of its constituents were spared from the rout.

Enbridge (TSX:ENB)(NYSE:ENB) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) retreated too, but remain good investment prospects if you want to buy on weakness. The top-tier energy stocks should hang tough amid a potential oil slump.

No-brainer buy

Enbridge has proven time and again its reliability as an income stock in a volatile sector. The $104.6 billion energy infrastructure company takes pride in its utility-like and disciplined investment approach. The company also has an incredible dividend growth streak of 27 consecutive years.

Moreover, the diversified asset base ensures the delivery of leading shareholder returns over the long run. As of this writing, Enbridge is still up 9.5% year to date. At $51.64 per share, the dividend yield is a high 6.66%. A $20,000 investment will produce $333 in passive income every quarter.

Because of built-in revenue accelerators in its base business, management said Enbridge can advance its regulatory strategy, drive down costs, and improve productivity. Its President and CEO, Al Monaco, said, “Operational performance remained strong, translating into good second quarter financial results.”

In the first half of 2022, adjusted earnings increased 2.1% to $3 billion versus the same period in 2021. Monaco adds, “We’re executing on our $10 billion diversified secured growth program with almost $4 billion on track to enter service in 2022. And, we’ve added over $3.6 billion of new projects to our secured backlog.”

Enbridge is a no-brainer buy for its strong internal cash flow, ready access to liquidity from diversified sources, and a stable business model.

Long-term growth

Canadian Natural Resources continues to hold steady, notwithstanding the downward pressure on energy stocks. Current investors are ahead 25.5% year to date ($63.72 per share), and delight in the 4.32% dividend yield. In the last 3 years, CNQ's total return is 111.6%, while the compound annual growth rate (CAGR) is 28.3%.

The $73.6 billion senior crude oil and natural gas company in Canada has assets in North America, Offshore Africa, and the UK North. CNQ's balanced mix of assets (natural gas, light crude oil, heavy crude oil, bitumen, and synthetic crude oil) is among the strongest and most diversified portfolios globally.

In the first half of 2022, consolidated sales and net earnings increased 83.4% (to $25.9 billion) and 125.5% (to $6.6 billion) year over year, respectively. Cash flows from operating activities ballooned to $8.75 billion or 59.8% higher than in the first half of 2021. Management is confident about sustaining its operations and having sufficient liquidity in the short-, medium-, and long-term.

Even with the unexpectedly strong rise in energy prices, the company posted net cash hedging gains in the first half of 2022. In anticipation of such volatile times, management can protect cash flows by hedging volatility in energy commodity prices, including up to 60% of near-term and 40% of long-term production

The capital expenditure programs and multi-year financial plans give the energy major flexibility and enhance its ability to raise new debt on commercially acceptable terms.

Softer commodity prices

Philip Petursson, chief investment strategist at IG Wealth Management, said the fear of a general slowdown in the global economy is working its way into softer commodity prices. Even if an oil slump comes next, Enbridge and Canadian Natural Resources are must-own energy stocks.

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