2 Top TSX Energy Stocks to Buy in October

Description

Investors who missed the big rally in TSX energy stocks earlier this year are wondering if now is a good time to buy oil and gas stocks after the big correction.

Oil market

The price of oil dropped from above US$120 per barrel at the 2022 high to a recent low under US$80. At the time of writing, West Texas Intermediate (WTI) trades near US$83. The oil market caught a bit of a tailwind in recent days, as bargain hunters started buying on the expectation that prices will move higher in the coming months. They could be right.

OPEC (the Organization of the Petroleum Exporting Countries) could announce a supply cut on Wednesday to help counter the impact of recession fears and the release of strategic reserves by the American government. The White House has been trying to push down gasoline prices ahead of the November midterm elections.

Looking at 2023, a rebound in oil demand is expected to continue, even if the global economy goes into a slump. Air travel growth will boost consumption of jet fuel and the return to offices is going to drive up gasoline sales. The U.S. will likely reverse course on its reserve sales in the coming months and take advantage of the decline in the price of oil since June to fill the reserves again, thus adding more demand to the market.

On the downside, China is expected maintain its zero-covid policy heading into 2023. This would limit the expansion of fuel demand in the country. A supply boost could come from Iran if a new nuclear deal emerges. This seems unlikely, but a surprise agreement could result in the end of sanctions and trigger a flood of oil into the market.

Top TSX energy stocks to buy now

Canadian oil companies continue to generate strong profits at current oil prices and the drop in their share prices from the 2022 highs appears overdone.

Baytex Energy (TSX:BTE) trades for less than $6 per share at the time of writing compared to $9 in June. The company owns attractive production assets in both Canada and the United States and has been able to reduce debt considerably as a result of the rebound in the oil market. Net debt is expected to drop to $800 million by early 2023. At that point, Baytex intends to return 50% of free cash flow to shareholders and increase the share-repurchase program.

Baytex traded at $48 per share in 2014, when WTI oil was previously at US$100 per barrel.

Crescent Point Energy (TSX:CPG) trades near $8.50 per share at the time of writing compared to $13.50 in June. The stock currently provides a 3.75% dividend yield and ongoing payout increases are expected as debt continues to drop. Crescent Point raised the dividend by more than 20% when it announced the results for the second quarter of 2022 and intends to start using 50% of excess cash flow to pay special dividends and buy back stock.

Crescent Point traded around $45 per share in 2014 before the oil market crashed in the second half of that year.

The bottom line on oil stocks

Volatility should be expected, but investors with a positive outlook on the oil market might want to take advantage of the pullback to add Baytex and Crescent Point stock to their portfolios.

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