Are Energy Stocks Winners After OPEC Production Cuts?

Description

The Organization of Petroleum Exporting Countries (OPEC) and its allies will implement a deep production cut in November 2022. Industry experts said the slash of two million barrels per day in the winter season is the cartel's biggest ever since the start of the pandemic.

Despite the United States' contention that there was no basis to lower production targets, Saudi Arabia asserts the move is purely economic. It adds that OPEC+ aims to curb market volatility. The latest development is misery to consumers but a boon to energy stocks.

According to Stephen Ellis, Morningstar's senior analyst, supply cuts will result in higher oil prices and translate to higher profits and cash flows for energy companies. As a result, they will be able to declare higher dividends and do more stock buybacks.

Resilient oil & gas producer

Canadian Natural Resources Limited (TSX:CNQ)(NYSE:CNQ) currently trades at $73.57 per share, or 164.7% higher than on January 4, 2021. Today, its market capitalization is $87.8 billion, although its market value rose to over $100 billion on April 20, 2022. It was the first publicly listed Canadian oil and gas producer to achieve such a feat.

In Q2 2022, net earnings increased 125.8% to $3.5 billion versus Q2 2021. Notably, cash flows from operating activities jumped 100.5% year over year to $5.9 billion. Its President, Tim McKay, said, "Our world-class asset base is strategically balanced across commodity types."

Because of the financial flexibility, the company can capture opportunities throughout the commodity price cycle. Moreover, the unique, diverse asset base with long-life, low-decline assets is a competitive advantage. Management said financial discipline, a strong balance sheet, and the capacity to generate funds flow internally are its means to grow the business.

CNQ is a no-brainer buy if you're shopping for a robust and resilient energy company in a tightening oil market.

Dividend payments are back

Vermilion Energy (TSX:VET)(NYSE:VET) is a high-flyer in 2022. At $28.64 per share, the trailing one-year price return is 118%. Market analysts covering this energy stock have a 12-month average price target of $41.64, a potential upside of 45.4%. The dividend yield rose to a modest 1.12% following a 33% hike announcement on August 11, 2022.

The $4.7 billion international energy producer exploits light oil and liquids-rich natural gas conventional resource plays in North America. Vermilion explores and develops conventional natural gas and oil opportunities in Australia and Europe. Thus far in 2022, cash flows have been superb.

While net earnings in the first half of this year declined 32.3% year over year to $646.5 million, cash flows from operating activities soared 133.9% to $871.4 million. According to management, its primary goal is to maximize value and return more capital to shareholders over the long term. Vermilion will continue to balance debt reduction and portfolio enhancement to achieve it.

Stock winners

TSX's energy sector continues to sizzle with its 44.9% year-to-date gain. Canadian Natural Resources and Vermilion Energy are winning investments if you want to invest in the red-hot sector in Q4 2022. Both stocks are beating the broader market (-13.7%) with year-to-date gains of 44.9% and 81.5%, respectively. CNQ pays an attractive 4.12% dividend, while VET has reinstated its dividend program this year after suspending payments in 2020.

CATEGORY

1. Dividend Stocks
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2. NYSE:VET (Vermilion Energy)
3. TSX:CNQ (Canadian Natural Resources Limited)
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