Should You Invest in Canadian Energy Stocks Right Now?

Description

Canadian energy stocks are moving higher again after a steep pullback off the 2022 peak reached in early June. Investors who missed the recent bounce are wondering if this is a good time to add oil stocks to their Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP) portfolios.

Energy market outlook

Oil trades near US$88 per barrel at the time of writing. This is down from more than US$120 earlier this year, but it remains a very profitable level for oil producers. Analysts and industry leaders expect prices to remain elevated over the next few years due to rising fuel demand and limited capacity or desire across the industry to meaningfully raise output.

Global oil producers slashed capital investments by hundreds of billions of dollars in 2020 and 2021 to preserve cash flow during the crash. This means exploration and development spending that would have been needed to replace resources or grow production didn't occur. Getting new projects built and in operation takes a long time and producers have been slow to boost spending, even as oil prices rebounded.

Investors want oil companies to use excess cash to boost dividends, buy back stock, and reduce debt instead of investing in production growth. At the same time, executives at large oil producers are trying to meet carbon-emission goals, so they are simply spending the capital required to maintain existing output and are happy to reap big profits.

A global recession could slow down the rebound in oil demand, but supplies are still likely to be tight for the next few years. Airlines are ramping up capacity to meet soaring travel demand, and commuters are back on the highways. China might be forced to abandon its zero-covid policies to save the economy. Ending covid-19 lockdowns would drive oil demand higher.

Based on this outlook, Canadian oil stocks still look attractive.

CNQ stock

One top energy stock to consider is **Canadian Natural Resources** (TSX:CNQ). The board raised the dividend by 28% in 2022 after a 25% increase late last year. Investors have received a dividend hike in each of the past 22 years, and the compound annual dividend-growth rate over that timeframe is about 22%.

CNRL paid a bonus dividend of $1.50 per share based on the solid second-quarter 2022 results. This was on top of the base quarterly dividend of $0.75 per share. At the time of writing, CNQ stock provides a base yield of 3.6%. As net debt continues to fall, CNRL is expected to pay out more bonus dividends and potentially increase the base distribution again in 2023.

The shares now trade near $82.50. That's up from the September low around $61.50 but still down from the $88 the stock hit in June.

The bottom line on Canadian energy stocks

Despite the recent surge, oil stocks still appear undervalued. Volatility should be expected in the coming months, but buy-and-hold dividend investors should do well adding top Canadian energy stocks to their portfolios at current levels and can look to increase the positions on any weakness.

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aswalker