



Should You Still Invest in Canadian Energy Stocks This Year?

Description

Canadian energy stocks and oil prices generally move in tandem. But there was a gap in their price momentum in November. While the Western Texas Instrument (WTI) crude price fell 15% in November to US\$78.5, the stock price of **Suncor Energy** ([TSX:SU](#)) and **Cenovus Energy** ([TSX:CVE](#)) fell 1% and 2.4%, respectively. What caused this distortion? Should you still invest in Canadian energy stocks this year? Let's find out.

What caused the distortion between Canadian energy stocks and oil prices?

Oil prices fell below US\$80/barrel in the third quarter after staying above US\$100 in the second quarter. The decline impacted the third-quarter earnings and cash flows of Suncor and Cenovus. Suncor's adjusted operating earnings fell 33% sequentially, while Cenovus net earnings fell 37% sequentially. Despite the earnings dip, Suncor and Cenovus continued to repay debt and buy back shares at an accelerated pace as oil prices remained cyclically high above US\$60/barrel.

The buybacks reduce share count, and debt reduces fixed costs, giving cyclical companies the flexibility to thrive in a downturn. A lower share count means stable and maybe [higher dividends](#) for investors in the future.

Moreover, there aren't many sectors that are posting higher earnings and cash flows compared to 2021. Some companies have even stalled their buybacks to conserve cash. But energy companies see buybacks as the best investment option as they are not increasing their capital expenditures. Thus, many investors remain bullish on energy stocks, which has created a gap between oil prices and [oil stock](#) prices.

Should you still invest in Canadian energy stocks this year?

Now is not the time to invest in Canadian energy stocks trading near their cyclical high, or when the

stock price is not in sync with the underlying asset. According to a [Moody's report](#), overall oil industry earnings will stabilize in 2023. However, it expects oil to remain on the higher side of the cyclical range due to lower capital expenditure, uncertainty around the expansion of future supplies, and geopolitical risks.

As oil prices stabilize, so will the gains. A cyclical stock has limited upside in price, and Suncor and Cenovus have reached their cyclical peak. These stocks might either remain stable or fall in 2023. Therefore, oil stocks are not a good investment at their current prices. You can either hold or sell some stocks depending on your investment strategy.

Should you hold or sell?

Canadian energy stocks are a way of earning passive income for the longer term. However, they come with a risk of dividend cuts if the oil price falls below the breakeven point. Cenovus has been paying dividends since 2010. Over these 22 years, it cut dividends twice (2015 and 2021), suspended dividends in 2020, and stalled dividend growth in 2011.

Suncor has a better dividend history. The company has been paying dividends regularly since 1992 and growing them in a few years. However, the 2020 pandemic crisis was harsh even for Suncor, and it slashed its dividends. But it made up for the dividend cut by growing the dividend at a faster rate when oil prices revived.

If you purchased Suncor stock below the \$30 price, keep holding it as you have locked in a high dividend yield for the long term. The last time the stock fell below \$30 was in 2012 and 2009. But if you bought the stock at or above \$40, you can sell a quarter of your holdings in the \$48–\$52 price range and book more than 20% capital appreciation. When the industry stabilizes and investors get more growth avenues, they might sell off some Suncor shares to buy growth stocks.

Investor tip

Don't be late in the game, or you might miss an opportunity to sell the rally. You can buy back Suncor stock at a \$40 price and lock in a higher dividend yield. You can use the sales proceeds from Suncor to buy growth stocks like **Descartes Systems** or **Magna International**. And if you like dividend stocks, you can reduce the risk by putting the sales proceeds in **BCE**. The telecom has been paying dividends for over 30 years and growing them steadily for 12 years.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:SU (Suncor Energy Inc.)

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