Down Big on Oil Stocks? Here’s Why You Might Not Want to Sell

Description

Oil stocks have been the best-performing asset class of 2022. Up 41% for the year, the TSX energy index has solidly outperformed the rest of the market. If you’d invested $10,000 in TSX oil stocks at the start of the year and held to today, you’d already be up $4,100 – not even counting dividends! And amazingly, next year could see another leg up.

While it would be unrealistic to expect oil stocks to do in 2023 what they did in the first half of 2022, they could perform reasonably well. Russia’s war in Ukraine is still ongoing, and Middle Eastern nations are still cutting output. The ingredients for low supply are in place. Where demand will go is anybody’s guess, but it has been trending upward ever since the last wave of COVID-19 lockdowns ended. On top of that, China is finally re-opening, which could trigger an abrupt spike in demand followed by a plateau.

The winter has only just begun

Winter tends to see an increase in energy consumption, as temperatures come down and people start heating their homes more. There are many different sources of winter heating; some countries have green energy grids, but natural gas remains a big source of home heating fuel. Many Canadian provinces still rely on coal and natural gas, and many oil companies sell gas in addition to crude oil. This means that oil companies can profit on the rising gas consumption likely to occur in the coming months, even if oil and gasoline prices go nowhere.

Many supply issues remain

In the previous section, I wrote that natural gas could be bullish for oil companies even if oil itself does nothing. However, there is reason to believe that oil prices will be at least “OK” in the year ahead. Recently, OPEC (the oil cartel that controls much of the world’s oil supply) pledged to cut oil output by two billion barrels per day. Supply chain issues still intermittently surface because of the war inUkraine, and China’s re-opening could bring demand back online. Overall, it looks like oil prices will be moderately high next year, though probably not as high as the peak prices seen in 2022.

A worthy oil stock that is still dirt-cheap

If you’re looking for a cheap oil stock for the next leg up, you might want to consider **Suncor Energy Inc** (TSX:SU). Suncor Energy is one of the cheapest oil stocks out there, trading at just:

- 5.5 times adjusted earnings (“adjusted earnings” means earnings with some changes to standard accounting rules).
- 7.7 times GAAP earnings (“GAAP earnings” means earnings going by standard accounting rules).
- 1.5 times book value.
- Four times operating cash flow.

Talk about a cheap stock! With valuation multiples like these, SU would likely still be cheap even if oil went below $70. And to top it all off, the stock has a 4.7% dividend yield. There are plenty of good oil stocks out there this year, but thanks to its cheap price, Suncor is one of the best. You could do much worse than buying Suncor this year ahead of 2023.

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