



2 Energy Stocks to Watch if Oil Prices Slump

Description

It's been a terrific year for energy stocks, with oil prices holding their own above US\$75 per barrel for most of the year. Undoubtedly, Russia's invasion of Ukraine was a horrific occurrence that nobody saw coming. The impact on oil prices was considerable.

As the Ukraine-Russia crisis drags into 2023, there's a good chance that the "war-time premium" attached to the price of oil could remain. With a cap on Russian crude that could keep global energy markets propped up, even as the storms of recession move in, 2023 could be another solid year of returns for the world's top energy producers.

Despite the upbeat environment for [energy producers](#), shares of many top names, including **Canadian Natural Resources** ([TSX:CNQ](#)) and **Suncor Energy** ([TSX:SU](#)), are commanding pretty modest single-digit price-to-earnings (P/E) multiples in the seven to eight range. There's a lot of downside risk already baked in. Though commodity price movements are very hard to predict, there are questions as to how oil prices will fare as the economy tilts into a downturn. Further, the removal of the "war-time premium" is also a growing possibility, as the Ukraine-Russia crisis could be resolved in 2023.

Top Canadian energy stocks slump as oil fluctuates

WTI (West Texas Intermediate) could easily plunge back to the US\$40-50 range if Russia pulls out of Ukraine and the economy experiences a hard- or crash-landing at the hands of the Fed. It's tough to call the price of oil. Regardless, investors shouldn't focus on where prices will go from here. Instead, investors should view energy stocks as worthy portfolio diversifiers with solid dividends.

Many smart investors bought into the energy stocks in 2022. The energy sector shined brightly as nearly everything else felt the gravitational pull of the Fed's rapid rate hikes. What works in one year, though, may not work well in the next year or the year after that.

That's why investors should temper their enthusiasm when looking to deploy capital in any one sector. Staying diversified remains key to staying out of trouble, as markets wander into a potential period of negative economic growth.

Canadian Natural Resources

Canadian Natural is an absolute behemoth in the Canadian oil sands. The Canadian energy kingpin seems to be in the midst of a multi-year bull market that even the [S&P 500's bear market](#) couldn't derail. After a few months of turbulence, though, there are worries that CNQ's bullish run may be drawing to a close.

The stock has slipped by around 18% from its all-time highs. Meanwhile, the dividend has swelled above 4.7%. With an ambitious \$5.2 billion capital spending plan for 2023, CNQ could make for a very volatile play if oil slumps. Despite the seven times trailing P/E multiple, CNQ is one of the cheap names that could get much cheaper, depending on where WTI heads from here.

I still view CNQ as a value play. But I'd urge investors to average into a position over time, as 2023 could be a hectic year for oil prices.

Suncor Energy

Suncor Energy is an energy value play that was recently cut from RBC's top energy pick list. Despite recent swoons, I'm bullish on the firm's ability to improve upon its operating and safety track record now that the public has greater awareness following activist involvement.

The stock trades at 7.36 times trailing P/E, with a 4.98% dividend yield. Down more than 23% from its high, Suncor stock is feeling a lot of negative momentum at its back. While a modest oil dip is likely baked into the share price here, a serious slump in oil (think WTI below US\$50 per barrel) could cause SU stock to shed more of the gains it posted through 2022.

Like CNQ, I'd tread carefully with the name and buy gradually through the next year.

CATEGORY

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