Energy Investors: Should You Buy Oil and Gas Stocks in 2023?

Description

The post-pandemic rally in oil and gas prices changed the fate of energy-producing companies in a big way. While energy was some of the disdained names across the street earlier, the sector is now one of the investor favourites. And as a result, the year 2022 marked the third consecutive year where oil and gas names outperformed broader markets.

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Canadian oil and gas stocks for 2023

Interestingly, they are still risky bets considering their strong positive correlation with oil prices. However, crude oil prices have rallied 11%, natural gas is up 44%, and TSX energy stocks are sitting on superior 50% gains for the year. The correlation between oil prices and energy stocks declined in the second half of 2022. This is because energy companies have attained much sounder financial shape lately, particularly on the balance sheet front, which has made them more appealing to investors.

While many broad market sectors saw an earnings squeeze amid inflation and rate hikes in 2022, energy has been among the very few that have witnessed an encouraging earnings boost. Going into 2023, TSX energy stocks continue to look attractive, with a gloomy outlook for broader markets.

Many energy experts see oil prices rallying further higher next year on chronic supply issues. Notably, if China reopens at full capacity, the demand for oil could significantly shoot up. However, supply will not be matched soon as producers are unwilling to raise output. Whether it is OPEC (Organization of Petroleum Exporting Countries) or shale oil, producers are just not ready to boost production. So, the demand-supply imbalance should fuel another rally in crude oil next year.

Here are two TSX energy stocks investors can consider.

Tourmaline Oil

While oil and gas prices are correlated, the latter could see price strength next year on more concerning supply woes. Europe's energy crisis will likely keep gas prices elevated and could benefit natural gas producers. **Tourmaline Oil** (TSX:TOU) could be the beneficiary in this strong price setup with its large gas production assets.

Tourmaline has already seen immense earnings growth this year, facilitating faster deleveraging. It still has excess cash, which it distributed to shareholders in the form of special dividends. If gas prices remain strong next year, Tourmaline could allot an even higher portion of its cash flows to shareholder returns.

Moreover, TOU looks appealing from the valuation standpoint as well. So, its scale and strong operational execution might drive higher financial growth, creating robust shareholder value in 2023 as well.

Enbridge

Alongside a growth stock, a relatively safe, dividend-paying pick like **Enbridge** (TSX:ENB) would be apt for diversification. Enbridge is an oil and gas pipeline company and, thus, has a lower correlation with oil prices. That's why energy producer stocks have returned 50% this year, but ENB has returned 16%. Despite the underperformance, its less volatile nature and stable dividends stand tall.

ENB currently yields 6.6%, way higher than TSX stocks. It has increased shareholder payouts for the last 28 consecutive years. Its earnings stability drive dividends and shareholder returns.

The pipeline player may not replicate the superior returns of energy explorers and producers. However, Enbridge's stability becomes more valuable in uncertain markets.

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