2 Top TSX Energy Stocks to Buy as Crude Oil Is Set to Soar Higher

Description

Although crude oil notably slid in the second half of 2022, the energy sector outperformed broader markets last year. In 2023, many predict oil in the range of US$90–100 a barrel, which could fuel another rally in energy stocks.

The demand-supply imbalance could further increase this year due to re-openings in China. The supply side is already under pressure as producers are not producing enough to quell the world's increasing oil thirst. Moreover, even if energy producers have upped their capex for 2023, that's due to input cost inflation and not to increase output significantly.

Another reason why TSX energy stocks might continue to outperform this year is their earnings growth visibility. While many broad market sectors are seeing earnings and margins squeezed due to inflation, oil and gas producers are seeing handsome growth. That's because of their pricing power.

Energy producers can pass on a higher cost burden to their customers without hampering their margins. So, in 2023 as well, energy stocks might continue to outperform, comfortably beating broader markets.

Here are two Canadian oil and gas names that are well-positioned this year.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ) is one of my favourite TSX energy stocks because of its high-quality assets, scale, and strong operational execution over the years. CNQ looks in a much better position compared to peers amid this strong price environment.

Canadian Natural has almost 17 billion barrels of equivalent of 2P (proved plus probable) reserves, one of the largest in Canada. It produces synthetic crude oil, light and heavy crude oil, and natural gas. Much of its gas is sold in export markets, receiving premium rates compared to those of peer Canadian gas producers.

CNQ stock returned 30% in the last 12 months, including dividends. Thanks to its handsome free cash flow growth last year, Canadian Natural has remarkably bolstered its balance sheet.

Now that much of the deleveraging target is achieved, CNQ is expected to allocate a higher portion of its 2023 free cash to shareholder returns. This will likely improve its dividends and share price due to aggressive buybacks. In 2022, CNQ bought back $5.1 billion worth of its shares.

Cenovus Energy

Canada's second biggest energy producer **Cenovus Energy** (TSX:CVE) also looks attractive for 2023. The central premise being its higher allocation of free cash for buybacks.

Cenovus Energy aims to produce 820,000 barrels of oil equivalent per day in 2023. Apart from upstream operations, it generates revenues from refining operations.

Cenovus saw a rapid decline in leverage last year, bringing its net debt down from $11 billion to $5 billion in Q3 2023. As the company buys back more of its shares, CVE shares could see a spurt in the short term. CVE shares returned 45% in the last 12 months, notably beating peer TSX energy names.

Enriching shareholders

It's highly commendable that the energy space is engaging in massive buybacks and dividend boosts, especially when broader markets are seeing flattish to negative earnings growth. This speaks to the sector's health and transformed outlook. Considering the relatively discounted valuations and record profitability, the energy sector might keep topping charts in 2023.

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