2 Energy Stocks That Could Hold Up if Oil Prices Turn

Description

Energy stocks have been relative outperformers over the past year, with oil and gas prices doing a great job holding up. Looking ahead, the Federal Reserve may be poised to finish its rate-hike spree. What happens next, though, remains a mystery. At this juncture, investors seem quite hopeful that a recession will be mild and that the Fed will have more flexibility with rates in the second half. Sure, it's unwise to expect rate cuts to save stocks in the back half of the year. Still, the gloominess could turn to bullishness quickly once the last of rate hikes are in and markets can (mostly) move past recessionary headwinds.

Personally, I'd stand by energy stocks, even if recessions historically knock oil prices off a bit of a cliff. Indeed, a 2023 recession is going to be different from those suffered in the past.

In this piece, we'll look at two great energy stocks that I think could continue their market-beating ways over the next few years, even with the recession factored in and a potential resolution to the Ukraine-Russia crisis: two events that could cause oil prices to slip.

Consider shares of **Suncor Energy** (TSX:SU) and **Cenovus Energy** (TSX:CVE): two energy stocks that I'd carefully consider, as shares stall after impressive gains in the first half of 2022.

Suncor Energy

Activist investors over at Elliot Investment Management are slowly making changes to the board. While Suncor stock has been a recent relative outperformer, surging over 34% in the past year, Elliot sees a lot of areas where the firm can improve. Undoubtedly, there seems to be a lot of low-hanging fruit to pick for the energy giant that's historically traded at a nice discount.

At writing, shares go for 8.04 times trailing price-to-earnings along with a huge 4.62% dividend yield. Suncor is better equipped than most energy producers to weather a pullback in the energy patch. Still, an oil pullback seems to be partially priced in. Recessions tend to accompany lower oil prices, and while pressure could weigh on the broader energy giants, I think Suncor remains a terrific value bet.

Elliot's involvement, I think, could unlock more value, as the firm makes better at meeting production goals while improving its safety record.

Cenovus Energy

Cenovus Energy is a spicier energy stock that's up more than 38% over the past year. Undoubtedly, the epic rally off 2020 lows was cut to a plunging halt, with the name losing around a third of its value from peak to trough. Now, CVE stock has been flatlining at around $25 for a few months now. At 9.86 times trailing price-to-earnings ratio, shares look like a great value. The 1.65% dividend yield may be way smaller than peers, but I view CVE stock as a great dividend grower if oil steadies through the coming recession.

Finally, Cenovus's oil-price sensitivity makes it a potentially more rewarding play for those bullish on oil prices. Yes, oil could slump as headwinds weigh on demand. However, with China poised to recover after its latest reopening, there's a good chance oil prices could stay higher for longer than most think. In that regard, Cenovus is a terrific way to play the space.

Bottom line for energy stock investors

Oil could go either way from here. Regardless, Suncor and Cenovus seem cheap enough to hold their own in a bear-case scenario. They're modestly priced, with much-improved operating economics.

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