Value Investors, Get Ready! 2 TSX Energy Stocks Are Actually Starting to Look Like Deals

Description

The **TSX Capped Energy Index** has been fluctuating since June 2022. Before that, the bull market momentum was quite strong, and even though a true decline hasn't actually started yet, it might not be too far away. The pattern is flattening, and a strong negative catalyst in the energy sector (local or global) may trigger a downward tumble.

If that happens, there are at least two stocks you should look into. Both of them are already tracing the pattern of the energy index to a certain degree and may go bearish alongside the market.

An oil and gas producer

Canadian Natural Resources (TSX:CNQ) is one of the largest independent oil and gas producers in the country. It has a geographically diversified portfolio of assets spread out over at least three continents. It produces natural gas, natural gas liquids, light and heavy crude, and oil sands. The full coverage of mainstream energy sources makes it a coveted company, especially when oil is in high demand.

It was one of the most rapidly growing energy companies in the post-pandemic market. The stock rose over 600% in less than two-and-a-half years, and even though it's still trading quite near the top, the growth pattern has changed significantly.

Thanks to the strong financials supporting this growth, the stock is still undervalued, despite such a strong bull run. It's trading at a price-to-earnings ratio of just 7.7 and may become even more attractive (from a valuation perspective) if the stock starts going down under the influence of a bearish sector. When that happens, you can capture a far more attractive yield than the current 4.2%.

An integrated energy company

Suncor (TSX:SU) is another major name, especially when it comes to Canadian oil sands, but the company does it all. From upstream to retail fuel stations and everything in between (midstream, refining, etc.), Suncor has assets covering all the elements of the energy supply chain.

This makes Suncor a truly integrated energy giant. It has five operational sites for extracting oil sands, four refining facilities, a growing power portfolio set to make it one of the largest electricity producers in Alberta by 2024, and over 1,500 retail locations.

The company's ability to *make* money across the entire supply chain also becomes a liability when low demand and oil prices go downhill. When this happened during the pandemic, Suncor had to cut its dividends, breaking its stellar dividend-growth streak.

Ironically, this "weakness" is one of the most compelling reasons to buy Suncor if it becomes discounted again, because the probability of the company cutting its dividends again is quite low.

Foolish takeaway

For now, dividends seem to be the main benefit you might get by buying the two energy stocks when they become discounted. However, if you stick with them long enough to experience the next bull run, you may also benefit from the capital-appreciation potential they offer. It may not be as grand as it was in the post-pandemic market, but it can still be quite substantial.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CNQ (Canadian Natural Resources Limited)
2. TSX:SU (Suncor Energy Inc.)

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