



2 Top Energy Plays Long-Term Investors Should Be Buying Today

Description

The growth to value rotation we've seen take place of late is intriguing to watch. Indeed, investors in many energy stocks have done very well for themselves this year. Such returns are reasonable given the rather dismal 2020 energy investors had.

However, the question remains whether energy stocks can still outperform from here. Interest rates are still low, and growth stocks still appear to have many of the catalysts that took them on this nice ride in recent years. That said, diversification is key, and the energy sector is one of the value sectors that continues to show promise.

Accordingly, these two companies are among my top picks for investors seeking energy exposure. Let's take a look.

Top energy stocks: Suncor Energy

One of the largest energy stocks in Canada, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) remains a top pick of mine. This oil sands player has proven its business model is both sustainable and stable, given the recent ride oil prices have been on the past couple of years.

Indeed, despite the recent turmoil, Suncor's stock price has stabilized above \$25 of late. That said, this is a stock that's still well off its pre-pandemic levels, trading at what I view as a value discount to its historical cash flow levels.

Given where the price of oil is at today, I see Suncor as an excellent value pick for long-term investors. The company's breakeven cost per barrel sits at around US\$35 West Texas Intermediate. As long as oil prices continue to trade in this range, I foresee a tremendous amount of cash flow generation on the horizon.

Additionally, from a [dividend](#) standpoint, I like Suncor right now. The company's 3.2% yield is meaningful relative to bond yields. And should cash flows increase as I expect they will, this company could turn the taps back on in terms of dividend hikes. The winds are blowing in the right direction in

this regard.

All in all, Suncor appears to provide one of the best risk/reward tradeoffs in the energy sector right now. This is a stock I'd recommend long-term investors consider at these levels, as I think a move above \$30 by year's end isn't out of the question.

Cenovus Energy

Cenovus ([TSX:CVE](#))([NYSE:CVE](#)) is the third-largest oil and gas producer in Canada. The company's not quite as big as Suncor, but certainly up there in terms of quality.

Both energy producers have excellent business models with impressive fundamentals. However, Cenovus' leverage to energy prices may even be higher than that of Suncor. Accordingly, those very bullish on the supply and demand fundamentals in the energy sector may choose to go with Cenovus at these levels.

Similar to Suncor, Cenovus stock is trading well below pre-pandemic highs. This is a stock with a [tremendous amount of room to run](#), for those who think energy prices are only on the incline from here.

The company's revenue growth this past year broke a triple-digit pace. That's impressive. However, investors are likely going to demand similar growth rates moving forward for this stock to move substantially higher.

I'm of the opinion that energy producers such as Cenovus are only getting started in terms of providing returns for investors. The company's Husky deal could actually work out over the long run, though many investors have written off Cenovus for this reason alone.

I think the company's leverage could work in its favor in this respect. However, investors need to be aware of the risks the company's leveraged balance sheet provides on the downside.

Accordingly, I'd put Cenovus a bit more in the speculative category right now. This is a higher-risk, higher-reward play for those looking at energy stocks right now.

CATEGORY

1. Energy Stocks
2. Investing

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:SU (Suncor Energy Inc.)

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Author

chrismacdonald

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