3 Cheap Oil Stocks to Buy Before They Bounce Back

These three energy stocks can thrive, even with oil prices currently on the decline

3h ago · By Ian Bezek, InvestorPlace Contributor

- These three energy stocks can pump out big profits in a world of $70 oil.
- **Canadian Natural Resources** (CNQ): The oil sands leader is cheap, with excellent long-life production assets.
- **Suncor** (SU): The firm's refining assets and gas stations give it much-needed diversification in a down energy market.

- **Ecopetrol** (EC): The Colombian oil company is offering an absolutely stunning dividend yield.

Source: Shutterstock

In 2022, oil stocks were a bright spot in a generally downbeat market. The invasion of Ukraine, in particular, led to a spike in oil and gas prices as the world scrambled to replace embargoed Russian energy products.

Indeed, 2023 has been much less favorable for energy stocks. The Federal Reserve's aggressive rate hiking campaign has seemingly brought inflation under control and led to a major drop in demand for commodities and inflation hedges. Unfavorable weather also hit the natural gas market hard.

However, it's not time to give up on oil stocks. While oil prices are down, they're still far above where they were for much of the past decade. Well-run oil companies can still make plenty of money in a world with $70 per barrel oil.

In particular, these three oil stocks look very promising, and should bounce nicely when the sector turns around.

Canadian Natural Resources (CNQ)

Canadian Natural Resources (NYSE:CNQ) is one of the largest energy companies in Canada. Its operations focus on the Canadian oil sands, which are primarily located in Alberta.

Source: Shutterstock

Oil sands happen to be a highly-attractive energy asset. That's because oil sands production more closely resembles hard rock mining instead of oil wells. This results in assets that don't have a traditional decline rate. Rather, they can keep producing oil at the same rate until running out of source material.

In the case of many of Canadian Natural's properties, oil reserves are expected to last well into the 2040s. In a world where regulators and politicians are making it increasingly difficult to get new fossil fuel projects approved, this makes existing productive properties more valuable.

Canadian Natural has massive reserves, but it's also a strong 2023 story, with shares at 9-times earnings, as well as a solid 4.9% dividend yield and buyback program.

Suncor (SU)

Source: Brett Holmes / Shutterstock.com

Suncor (NYSE:SU) is another leader in the Canadian oil sands. However, the big difference with this company as compared to Canadian Natural is that Suncor is more diversified.

Suncor owns refining capacity, which allows it to process its own oil. This is of vital importance in the Western Canadian market, where there isn't enough pipeline capacity to reliably get all oil to market at a fair price. Suncor also owns a large network of gas stations, giving it an integrated supply chain from oil production through to retail distribution.

Suncor shares are cheap, selling at 7-times forward earnings. There is also a generous 5.5% dividend yield investors should consider, as well as considerable share buybacks.

Ecopetrol (EC)

Source: zhengzaishuru / Shutterstock.com

Ecopetrol (NYSE:EC) is the state-managed Colombian oil company. The Republic of Colombia owns 88% of the company, with the other 12% being publicly-traded. This has worked out well for minority shareholders, particularly as it pertains to dividends.

That's because Ecopetrol's dividend is a major funding source for the Colombian government, and thus the government prefers as generous a dividend policy as is possible. Currently, Ecopetrol generally pays out about 60% of its earnings as dividends. With the stock trading at less than 3-times trailing earnings today, this has worked out to a stunning dividend yield north of 30%.

Ecopetrol doesn't just provide upstream oil production, either. It also controls 100% of Colombian refining capacity, along with pipelines, the country's electrical grid, solar power generation, and other infrastructure assets. This gives Ecopetrol a great deal of stability regardless of what happens with oil prices in the short-term.

On the date of publication, Ian Bezek hela long position in EC, SU, and CNQ stock. The opinions expressed in this article are those of the writer, subject to the InvestorPlace.com Publishing Guidelines.

Ian Bezek has written more than 1,000 articles for InvestorPlace.com and Seeking Alpha. He also worked as a Junior Analyst for Kerrisdale Capital, a $300 million New York City-based hedge fund. You can reach him on Twitter at @irbezek.

Energy, Oil

Undervalued Stocks

MORE FROM INVESTORPLACE

STOCKS TO BUY

NVDA Stock Outlook: Bet Against AI-King Nvidia at Your Own Risk

5h ago · By Louis Navellier and the InvestorPlace Research Staff

MARKET ANALYSIS

Huge Gains Are Coming (Not AI)

15h ago · By Jeff Remsburg

TODAY'S MARKET

RIVN Stock Alert: Rivian Will Now Face a Shareholder Lawsuit

20h ago · By Eddie Pan