

Deep Dive

Oil is the hottest sector, and Wall Street analysts see upside of up to 48% for favored stocks

Last Updated: Feb. 15, 2022 at 8:15 a.m. ET

First Published: Feb. 11, 2022 at 8:07 a.m. ET

Analysts favor Canadian oil companies but also some large U.S. players, such as ConocoPhillips, Schlumberger and Valero



Energy is the best-performing stock-market sector this year. Given today's strong economic growth and inflation, many believe oil prices could remain at current levels for years or maybe even move higher.

Below are two screens of stocks derived from the holdings of three exchange-traded funds that invest in oil and natural gas companies.

An oil price review

First, here's a chart showing the price movement of forward-month delivery contracts for West Texas Intermediate Crude Oil [CL00](#) over the past 10 years:



FACTSET

That steep but brief plunge on the chart is April 2020, when demand for oil tanked during the early days of the COVID-19 pandemic, storage sites were full and those holding front-month futures contracts essentially had to pay people to take the oil off their hands.

Oil price expectations from here

So what lies ahead for oil prices?

In a report provided to clients on Feb. 10, analysts at BCA Research said they believe prices will rise over the next decade in the face of increasing demand and declining supplies. Those threats to

supplies include government action that curbs fossil-fuel production as well as “climate activism at the board level at major energy suppliers and in the courtroom.”

In other words, the best intentions to reduce carbon emissions can push oil prices higher because alternate energy sources take a long time to be available in sufficient quantity to curb demand for fossil fuels.

The BCA analysts favor long-term exposure to oil through ETFs.

Three energy ETFs

If you agree with the above scenario you might want to consider a broad investment in the sector through one or more ETFs. Here's a quick look at three of them:

- The Energy Select Sector SPDR ETF [XLE](#) tracks the energy sector of the S&P 500 [SPX](#). That's a group of 21 stocks. This is the only sector of the S&P 500 that is up this year — a total return of 24.4% through Feb. 9, with dividends reinvested. XLE has \$35.7 billion in assets and annual expenses of 0.12% of assets. It is highly concentrated, with shares of Exxon Mobil Corp. [XOM](#) and Chevron Corp. [CVX](#) making up 44% of the portfolio.
- The iShares Global Energy ETF [IXC](#) holds 46 stocks, including all the stocks held by XLE. It brings in large non-U.S. companies, such as Shell PLC [UK:SHEL](#) [SHEL](#), TotalEnergies SE [FR:TTE](#) [TTE](#) and BP PLC [UK:BP](#) [BP](#). (For the three companies just listed, the first ticker is the local one, the second is the American depositary receipt, or ADR. Many of the locally traded non-U.S. companies listed below also have ADRs.) IXC has \$1.8 billion in assets, with an expense ratio of 0.43%. The fund's largest two holdings are Exxon Mobil and Chevron, which together make up 25.5% of the portfolio
- The iShares S&P/TSX Capped Energy Index ETF [CA:XEG](#) holds 20 stocks of Canadian energy producers. It is also heavily concentrated, with the largest three holdings, Canadian Natural Resources Ltd [CNO](#), Suncor Energy Inc. [SU](#) and Cenovus Energy Inc. [CVE](#) making up half the portfolio. The ETF has 2 billion Canadian dollars in total assets, with an expense ratio of 0.63%.

You might wonder why a foreign single-country ETF is included in the list, but Canada stands out with its expansion of fossil-fuel production. The iShares S&P/TSX Capped Energy Index ETF has outperformed the other two ETFs in recent years, while underperforming longer term.

Here's a comparison of total returns, with dividends reinvested, for the three ETFs and the SPDR S&P 500 ETF Trust [SPY](#) through Feb. 9:

S&P 500 sector	2022	1 year	3 years	5 years	10 years	15 years	20 years
Energy Select Sector SPDR Fund	24.1%	64%	31%	20%	33%	81%	355%
iShares Global Energy ETF	21.7%	55%	22%	24%	18%	49%	262%

iShares S&P/TSX Capped Energy Index ETF	19.0%	98%	49%	11%	-10%	-11%	177%
SPDR S&P 500 ETF Trust	-3.7%	19%	78%	117%	310%	328%	510%

Source: FactSet

The iShares S&P/TSX Capped Energy Index ETF has shined over the past one and three years. You can also see how dramatically the oil price decline from mid 2014 through early 2016 hurt the energy sector's long-term performance.

A look ahead for the ETFs

Here are forward price-to-earnings ratios for the three energy ETFs and SPY, along with expected compound annual growth rates (CAGR) for revenue and earnings per share through 2023, based on consensus estimates among analysts polled by FactSet:

S&P 500 sector	Ticker	Forward P/E	Two-year estimated sales CAGR	Two-year estimated EPS CAGR
Energy Select Sector SPDR Fund	XLE	12.7	3.8%	14.1%
iShares Global Energy ETF	IXC	10.7	4.3%	9.4%
iShares S&P/TSX Capped Energy Index ETF	CA:XEG	8.6	4.1%	9.7%
SPDR S&P 500 ETF Trust	SPY	20.2	6.5%	9.1%

Source: FactSet

From the forward P/E ratios, the energy ETFs might be considered cheap relative to SPY, however, they “earned” investors’ mistrust during the long decline of stock prices from mid-2014 through early 2016, and, of course, early in the pandemic.

Analysts don’t expect to see spectacular revenue growth for the energy portfolios over the next two years. However, they do expect better earnings growth than they do for the broad U.S. market — especially for XLE.

Two energy stock screens

The three energy ETFs together hold 63 stocks. The two screens below show which ETF or ETFs hold each stock.

First screen: dividend yields

Given what appears to be a healthy environment for oil prices, a broad round of dividend cuts, such as those we saw early in the pandemic, appears unlikely. With that in mind, the first screen of the 63 stocks held by the three ETFs is simply by dividend yield.

Here are the 21 stocks held by the three ETFs with the highest dividend yield (over 4%), along with a summary of analysts' opinions of the stocks. Share prices and consensus price targets are in the currencies of the country where the stocks are listed.

Company	Ticker	Country	Dividend yield	Share "buy" ratings	Closing price – Feb. 9	Cons. Price target	Implied upside potential	Held by
Petroleo Brasileiro SA ADR Pfd	PBR	Brazil	16.05%	57%	12.26	14.79	21%	IXC
Petroleo Brasileiro SA ADR	PBR	Brazil	14.66%	50%	13.42	14.09	5%	IXC
Enbridge Inc.	CA:ENB	Canada	6.32%	57%	54.44	55.16	1%	IXC
Kinder Morgan Inc Class P	KMI	U.S.	6.22%	21%	17.37	19.15	10%	XLE, IXC
Peyto Exploration & Development Corp.	CA:PAY	Canada	6.09%	67%	9.85	13.83	40%	XEG
Pembina Pipeline Corp.	CA:PPL	Canada	6.07%	39%	41.49	43.97	6%	IXC

GALP Energia SGPS SA Class B	PT:GALP	Portugal	5.99%	52%	10.02	11.72	17%	IXC
ONEOK, Inc.	OKE	U.S.	5.88%	29%	63.64	66.00	4%	XLE, IXC
Williams Cos., Inc.	WMB	U.S.	5.58%	68%	30.47	32.09	5%	XLE, IXC
Freehold Royalties Ltd.	CA:FRU	Canada	5.41%	87%	13.30	16.60	25%	XEG
TC Energy Corp.	TRP	Canada	5.28%	35%	65.85	67.32	2%	IXC
Eni S.p.A.	IT:ENI	Italy	5.06%	67%	13.25	14.81	12%	IXC
TotalEnergies SE	TTE	France	5.04%	71%	52.40	55.55	6%	IXC
ENEOS Holdings, Inc.	JP:5020	Japan	4.79%	78%	459.00	550.67	20%	IXC
Inpex Corp.	JP:1605	Japan	4.71%	78%	1,147.00	1,371.11	20%	IXC
Suncor Energy Inc.	CA:SU	Canada	4.59%	64%	36.59	43.50	19%	IXC, XEG
Exxon Mobil Corp.	XOM	U.S.	4.46%	35%	79.00	80.75	2%	XLE, IXC
Valero Energy Corp.	VLO	U.S.	4.41%	81%	88.84	94.41	6%	XLE, IXC
Chevron Corp.	CVX	U.S.	4.12%	74%	137.79	144.41	5%	XLE, IXC

Phillips 66	PSX	U.S.	4.11%	79%	89.45	99.31	11%	XLE, IXC
OMV AG	AT:OMV	Austria	4.07%	50%	56.46	62.51	11%	IXC

Source: FactSet

You can click on the tickers for more about each company.

Then [read](#) Tomi Kilgore's detailed guide to the wealth of information available for free on the MarketWatch quote page.

Don't assume dividends are distributed quarterly, as is common for U.S. stocks. Some companies only distribute annually.

Also note that the highest-yielding stocks on the list are American depositary receipts of Petroleo Brasileiro SA (known as "Petrobras") common shares [PBR](#) and preferred shares [PBR](#). Unlike traditional preferred stocks issued in the U.S., this Petrobras preferred issue has no par value. (More information about the Petrobras ADRs is available in [this filing](#) from Dec. 21, 2021 with the Securities and Exchange Commission.)

Any stock with a dividend yield above 14% has a built-in warning. If investors expected the dividend to be safe, the share price would be higher and the dividend yield lower. So this is an investment that might best be left to professionals or other sophisticated investors.

Second screen: analysts' picks

Going back to our combined list of 63 stocks, here are the 18 favored by at least 80% of analysts polled by FactSet, sorted by 12-month upside potential as implied by consensus price targets. You can see that analysts favor many of the Canadian oil and gas producers in lockstep:

Company	Ticker	Country	Share "buy" ratings	Closing price – Feb. 9	Cons. Price target	Implied 12-month upside potential	Dividend yield	Held by
Birchcliff Energy Ltd.	CA:BIR	Canada	88%	6.63	9.78	48%	0.60%	XEG
Tourmaline Oil Corp.	CA:TOU	Canada	100%	45.59	63.40	39%	1.58%	XEG
Parex Resources Inc.	CA:PXT	Canada	100%	26.85	36.73	37%	1.94%	XEG

ARC Resources Ltd.	CA:ARX	Canada	100%	14.49	19.42	34%	2.76%	XEG
Whitecap Resources Inc.	CA:WCP	Canada	93%	9.02	11.69	30%	2.99%	XEG
Enerplus Corporation	ERF	Canada	85%	14.77	19.07	29%	1.10%	XEG
Secure Energy Services Inc.	SES	Canada	100%	6.12	7.81	28%	0.49%	XEG
Tamarack Valley Energy Ltd.	CA:TVE	Canada	85%	4.90	6.25	28%	2.03%	XEG
Freehold Royalties Ltd.	CA:FRU	Canada	87%	13.30	16.60	25%	5.41%	XEG
Cenovus Energy Inc.	CVE	Canada	100%	19.09	23.29	22%	0.73%	IXC, XEG
Santos Limited	AU:STO	Australia	88%	7.50	8.90	19%	1.95%	IXC
Shell PLC	UK:SHEL	United Kingdom	80%	20.28	23.87	18%	3.25%	IXC
Diamondback Energy, Inc.	FANG	United States	85%	128.88	144.36	12%	1.55%	XLE, IXC
ConocoPhillips	COP	United States	86%	92.95	102.25	10%	1.98%	XLE, IXC
Pioneer Natural Resources Company	PXD	United States	82%	221.82	241.53	9%	3.08%	XLE, IXC

Schlumberger NV	SLB	United States	90%	39.40	42.66	8%	1.27%	XLE, IXC
Valero Energy Corp.	VLO	United States	81%	88.84	94.41	6%	4.41%	XLE, IXC
EOG Resources, Inc.	EOG	United States	82%	113.31	118.03	4%	2.65%	XLE, IXC

Source: FactSet

As always, do your own research and form your own opinions about which investments, whether through ETFs or other funds or a combination of those and/or individual stocks, match your investment objectives.