Lower Prices Equals Higher Yields: Which Energy Companies Should You Buy?

Description

The energy sector is probably the last place investors want to look at right now. Why is that? Well, in a matter of five months, the oil price dropped from over US$100 to US$50. Yes, there was a bounce to US$60 for a couple months, but it is down to US$50 again.

When will the pain end?

So far, the pain hasn't ended. The safest energy companies you can think of are no exception. **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) is down 26% from its 52-week high. **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) is down 37% from its 52-week high.

Even the safest of the safest, **Enbridge Inc** (TSX:ENB)(NYSE:ENB), the leading energy distributor is down 15%, and its peer, **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) is down 20%. The pain will not end until the oil price truly rebounds and remains stable at perhaps US$70.

Lower prices equals higher yields

With lowered prices, you can now buy Suncor at a 3.3% yield, Canadian Natural Resources at a 3% yield, Enbridge at a 3.3%, and TransCanada at a 4.3%.

Suncor has hiked its dividend for 13 consecutive years and is likely to continue if it doesn't want to break the record.

Canadian Natural Resources increased its dividend by 2.2% at the start of the year, showing shareholders that it is serious about being a dividend growth company. It has hiked its dividend for 14 years in a row!

Enbridge has increased it for 19 years in a row, and it already hiked it this year with a growth rate of 32.9%. Going forward, it expects to grow it at a compound annual growth rate of 14-16% in the foreseeable future.

TransCanada has grown its dividend for 14 consecutive years, and it hiked it by 8.3% this year already.

Going forward, investors can expect its dividend to grow at a compound annual growth rate of 6-8% depending on if the company expands its payout ratio or not.

Which should investors buy?

If you're looking for the safest investments, Enbridge and TransCanada are better choices. Their businesses are less affected by the volatility of the oil price and that's partly why they have also declined less than Suncor and Canadian Natural Resources.

However, if and when the oil price rebounds, Suncor and Canadian Natural Resources will have more upside because their business performances are more correlated with the oil price.

If you're looking for a safe investment and high income, then TransCanada is a good choice.

One thing for sure is that all choices require patience for the recovery of the oil price, which could span multiple years.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. NYSE:TRP (Tc Energy)
5. TSX:CNQ (Canadian Natural Resources Limited)
6. TSX:ENB (Enbridge Inc.)
7. TSX:SU (Suncor Energy Inc.)
8. TSX:TRP (TC Energy Corporation)

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Date
2025/08/28
Date Created
2015/07/24
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