



2 Best-in-Class Energy Companies to Buy Today

Description

When it comes to energy stocks, Canadian investors have multiple investment options available to them. The TSX is heavily weighted towards energy, and energy companies account for approximately 18.5% of the index. Canada is a global leader with more oil and gas companies listed on the TSX and TSXV than any other exchange in the world. **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)), Canada's largest integrated oil company, and **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)), Canada's second-largest pipeline company are two of the most attractive energy investments.

Suncor's primary assets are located in the Alberta oil sands, and the company owns four refineries: three in Canada and one south of the border in Colorado. It also has a footprint in the retail business with approximately 1,500 Petro-Canada branded gas stations.

Suncor is trading at a respectable price-to-book ratio of 1.57 and is trading at very attractive enterprise value (EV) to earnings before interest, taxes, depreciation, and amortization (EBITDA) of 8.06. The integrated oil and gas industry's EV/EBITDA average is 12.95. When compared to the industry, a lower multiple signifies that the company is undervalued.

Despite the high volatility of oil prices in recent years, Suncor has maintained its status as a Canadian dividend aristocrat. It has a 16-year dividend-growth streak, and the company expects to raise dividends in line with sustainable funds flow increases. It recently raised dividends by 12.5% and now yields 3.30%. Analysts have a median share price target of \$50.50 — a 20% premium over its current share price.

TransCanada is considered a pipeline company with 58% of its revenues and 68% of its earnings coming from natural gas pipelines. Its integrated system of over 90,000 kilometres of natural gas liquids carries approximately 25% of North America's natural gas needs.

TransCanada is attractively valued in relation to its future earnings and cash flows. The company is trading at 14.54 times its projected earnings in 2018, which is a decent valuation when compared against its high-quality asset base and expansion plans. The company has several pipeline projects underway in Mexico and, once completed, will generate approximately \$540 million in EBITDA.

The pipeline is also one of the most attractive income plays on the index. Yielding a healthy 4.54%, the company is a Canadian dividend aristocrat with 18 consecutive years of growing dividends. Its growth projects are expected to fund annual dividend growth of 8-10% through 2020. Analysts have a median share price target of \$70.50, which implies 30% upside from today's share price.

Suncor and TransCanada make great cornerstone investments of any portfolio. They are suitable for TFSAs and RRSPs and will reward income investors with rising dividends for years to come. Energy companies have had mixed results as of late, and in times of uncertainty, it's best to go long in best-in-class equities.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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2. NYSE:TRP (Tc Energy)
3. TSX:SU (Suncor Energy Inc.)
4. TSX:TRP (TC Energy Corporation)

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