2 Energy Stocks Selling Cheap, But Which 1 Is Safe for Your TFSA?

Description

I don't think it is a good strategy to ignore energy stocks in your TFSA portfolio. The energy sector, being so crucial to our economy, and the largest component of our benchmark index, should have some representation in any portfolio.

Energy producers and infrastructure providers have started to gain traction at a time when uncertainties like tech regulation, the Federal Reserve's tightening path, and widening credit spreads are forcing investors to look for other growth avenues.

Here are two energy stocks with different risk/reward equations for TFSA investors who are looking to add some energy exposure to their portfolios.

TransCanada

TransCanada Corporation (TSX:TRP)(NYSE:TRP) is a Calgary-based energy infrastructure provider. It business includes natural gas and liquids pipelines, power generation, and gas-storage facilities. Its natural gas pipeline network currently transports about 25% of North America's demand.

The company, in its fourth-quarter earnings, announced a major expansion of its Nova Gas Transmission Line, which moves gas from Alberta and British Columbia to markets all over North America. This $2.4 billion expansion, if approved by the regulator, will boost basin-export capacity by one billion cubic feet per day.

TransCanada shares, however, have been under pressure, as pipeline operators face stiff resistance from the provincial government in British Columbia on environmental concerns.

Its stock, trading at $53.04, has declined 13% this year, despite the upsurge in oil prices. This drop in the share price has helped push its dividend yield to more than 5%. This dip is a good opportunity for long-term investors to lock in this juicy yield.

While announcing its fourth-quarter earnings, the company also hiked its dividend by 10.4% to $0.69 per share. With a payout ratio of just over 80% of its comparable earnings, I think its dividend payout has potential for further growth. The company is undertaking $24 billion of near-term growth projects, which management says will support annual dividend growth at the upper end of 8-10% through 2021.

Cenovus Energy

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) is an oil sands giant. The company is in a turnaround phase after it loaded up its balance sheet with debt following its $17.7 billion acquisition of **ConocoPhillips's** assets during the oil market downturn. This massive undertaking not only ballooned its leverage, but also destroyed the company's investment appeal.

But as the oil markets recover, and investors return to M&A deals, there are signs that Cenovus could be close to getting out of this debt trap. Cenovus has sold about $4 billion worth of assets in four separate transactions.

That cash infusion brought the company's net debt down from $13 billion to $8.9 billion, helping to ease some of the concerns investors have about the company's future.

Cenovus plans to sell more of its assets from Alberta's Deep Basin natural gas formation, which it bought from ConocoPhillips Canada. As oil prices firm up and continue their upward journey, Cenovus shares have started to recover. Trading at $12.41 a share at the time of writing, its shares have outperformed the broader market this year.

Which stock is better for your TFSA?

I think TransCanada shares offer a better long-term opportunity for your TFSA, given the company's solid position in the industry and its dividend-growth potential. Cenovus is a riskier play, suitable for oil bulls who see a good case for a sustainable recovery in the energy markets.

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