TFSA Investors: 2 Dividend-Growth Stocks to Play an Energy Rebound

Description

Canadian investors are searching for top-quality dividend stocks to add to their TFSA portfolios, and the energy sector has some interesting names to consider today.

Let's take a look at **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) to see why they might be attractive choices right now.

Suncor

Suncor is primarily known for its oil sands operations, but the company also owns refineries and more than 1,500 Petro-Canada retail locations. These downstream businesses provide a nice hedge when oil prices fall and are a big reason Suncor's share price held up so well during the downturn.

The company used its strong balance sheet to acquire strategic assets during the oil rout, including the takeover of Canadian Oil Sands, which gave Suncor a majority stake in Syncrude. Suncor also pushed ahead with major organic projects, including Fort Hills and Hebron, which were completed in late 2017. The acquired businesses and the new developments should support strong production growth in the coming years.

Suncor reported solid financial results for Q1 2018, with operating earnings coming in at $0.60 per share compared to $0.49 per share in the same period last year. The company made additional tuck-in acquisitions during the quarter and raised the dividend by 12.5%.

At the time of writing, Suncor provides a yield of 2.7%.

Enbridge

Enbridge is down over the past year amid investor concerns that rising interest rates could entice yield seekers to dump go-to dividend stocks in favour of fixed-income alternatives. Worries about long-term growth prospects are also part of the story.

These issues are certainly valid, but the pullback in the stock price from $53 at this time last year to the current price of $41 might be overdone.

Why?

Enbridge has identified $10 billion in non-core assets that can be monetized in a strategy shift that will see the company focus on its core regulated businesses. Enbridge has already announced deals for more than $3 billion this year. The funds are being used to reduce debt and support the capital plan.

Enbridge is working through $22 billion in near-term projects, of which $7 billion should be completed in 2018. As the new assets go into service, Enbridge has previously said it should see revenue and cash flow increase enough to support annual dividend growth of at least 10% through 2021.

The company raised the payout by 10% for 2018 and has increased the distribution for 23 straight years. Investors have enjoyed a compound annual dividend-growth rate of 11% over that time frame.

The current payout provides a yield of 6.6%.

Is one more attractive?

Suncor is probably the safer choice today and might actually deliver better dividend growth in the near term. Contrarian investors, however, might want to start a position in Enbridge while it is out of favour. If you have the cash available, I would probably split a new investment between the two names.

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