2 Top Canadian Energy Stocks for Your TFSA Retirement Portfolio

Description

A recovery in the oil sector has investors wondering if they should boost exposure to energy stocks inside their TFSA retirement funds.

Let's take at look at the state of the oil market, as well as two of Canada's top players in the industry, to see where things stand.

Oil rally

Last week, OPEC decided to increase output by a lower amount than expected, sparking an oil price surge of more than $3 per barrel. This adds to a 12-month rally that has seen the price of West Texas Intermediate (WTI) oil rise from US$43 a year ago to the current price of close to US$70 per barrel, and more gains could be on the way.

Why?

OPEC initially announced supply restrictions in November 2016 with the aim of removing surplus oil from the market to help boost prices. The efforts looked like they were failing at this point last year, amid reports of certain members not meeting their reduction requirements and U.S. production growth offsetting part of the cuts.

However, a strong global economy and unexpected production shutdowns in Angola, Venezuela, and Libya have since provided a boost to the oil market.

Analysts say excess production capacity is limited, and the market could find itself short as early as the fourth quarter of this year. Iran's contributions to the market are expected to drop by as much as 30% due to new sanctions, and Venezuela's production issues caused by a major economic crisis are expected to continue.

OPEC's intended production increase is simply designed to return supply to the original target.

If demand remains robust and further outages occur, some pundits are suggesting that WTI oil could hit US$80 per barrel by the end of the year.

Which stocks should you buy?

Oil bulls might want to consider new positions in the sector before the rally takes off. However, many producers remain burdened with heavy debt, and continue to carry risk, especially if the market decides to reverse course. As such, it might be better for investors to go with larger names with strong balance sheets and diversified assets.

Canadian Natural Resources Limited (TSX:CNQ)(NYSE:CNQ) and **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) should be attractive picks today.

CNRL owns oil sands, conventional oil, and natural gas assets in Canada, the North Sea and offshore Africa. The company is very good at allocating capital to the highest-return properties as market prices shift and continues to grow through strategic acquisitions and organic developments. Earlier this year, CNRL raised its dividend by 22%. The current payout provides a yield of 3%.

Suncor is Canada's largest integrated oil company with oil sands, refining, and retail operations. As with CNRL, takeovers and internal development projects are boosting reserves and production. Suncor raised its 2018 dividend by 12.5%, and investors should see cash flow available for distributions increase as production ramps up at the recently completed Fort Hills and Hebron facilities. Suncor's dividend yields 2.7%.

The bottom line

Oil prices can be volatile, and while the near-term trend suggests more upside, investors should be careful where they allocate their energy sector funds. CNRL and Suncor are both market leaders with the ability to ride out a downturn, while offering strong dividend growth amid challenging market conditions.

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