2 Energy Stocks to Buy to Earn Growing Dividends

Description

Investing in energy stocks doesn't come without risk. When you buy stocks that are exposed to the volatile oil and gas markets, you should get ready for big swings in the value of your investment.

That said, it's also important for long-term investors to have some exposure to energy sector, which is so crucial for the Canadian economy. Energy companies make up about one-third of the composition of our S&P/TSX Composite Index.

Once you have decided to invest in energy companies, the biggest challenge is to pick stocks that you can keep in your portfolio for a long term. One approach that many analysts recommend is to buy top integrated energy companies that generally perform better in a downturn.

Enbridge Inc. (TSX:ENB)(NYSE:ENB) and **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) are the two top names from the Canadian energy space that fit the bill. Let's find out which company is a better buy when measured on their capabilities to withstand oil shocks and reward their investors.

Enbridge

The Calgary-based Enbridge is North America's largest pipeline operator and one of the best dividend-growth stocks around. With the yearly dividend yield of 5.9%, it offers one of the highest yields among the mature Canadian companies.

When you talk about dividends, reliability is very important. For your income portfolio, you want to buy and hold stocks for a long time, and you don't want companies in your portfolio that suddenly stop paying dividends.

Enbridge has a very solid track record on this front. It's been paying dividend to its shareholders every year since 1953. This long history suggests that you can rely on its dividend cheques during recessions, oil market downturns, and financial crises.

Enbridge is also a great dividend-growth stock, meaning that the company consistently pays more in dividends to help its investors to counter the effects of inflation. Over the past 20 years, the dividend has grown at an average compound annual growth rate of 11.7%.

Going forward, Enbridge is expecting 10% growth in the annual dividend through 2020, as it undertakes $22 billion in development projects that, on completion, will fuel more growth in the company's cash flows.

Suncor

Suncor is the largest oil sands player in Canada. That means the company is directly exposed to variation in oil prices. To protect its cash flows from this uncertainty, Suncor has developed a diversified assets base, such as gas stations and refineries.

It's an integrated energy company with a portfolio of high-quality assets, including oil sands extraction, refining, and marketing the energy products to industrial, commercial, and retail customers. In Canada, Suncor operates more than 1,500 Petro-Canada stations. This diversification helps Suncor to perform better than its peers when oil prices are depressed.

On income-producing metrics, Suncor isn't far behind Enbridge. Currently, its stock pays 2.64% annual dividend yield. Its dividend payout has grown to $0.36 a share from $0.05 a share a decade ago.

Suncor also has a long track record of paying dividends. The oil giant has been sending dividend cheques to its shareholders for about quarter of a century.

Which one you should buy?

Both Enbridge and Suncor might prove good additions to your portfolio. Their diversified asset base, dividend growth, and solid development plans make them attractive for income investors. If I were to pick between the two, I would prefer Enbridge due to its higher yield.

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2. Energy Stocks
3. Investing

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