2 Top Energy Stocks to Buy and Hold in Your TFSA

Description

Despite the volatile nature of energy stocks, it's not a bad idea to have some top-quality energy names in your Tax-Free Savings Account (TFSA). Energy companies belong to an important segment of the Canadian economy, making up about one-third of the total market capitalization of the S&P/TSX Composite Index.

Integrated energy companies with strong balance sheets and solid assets generally perform better in market downturns. Such companies can also provide decent long-term returns to investors whose objective is to hold on to their investments and ride through the market volatility.

Suncor Energy (TSX:SU)(NYSE:SU) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) are two Canadian operators that certainly belong to this group. Let's take a deeper look.

Suncor

This Calgary-based producer has a diversified asset base that includes large oil fields, gas stations, and wind farms. The company holds the largest reserves in the oil sands, and it owns and operates four refineries, Canada's largest ethanol plant, wind farms, and 1,500 retail outlets.

Due to this strength in its portfolio, Suncor stock has rebounded strongly from one of the worst oil slumps in the recent history. After hitting a multi-year low in the last summer, Suncor stock has gained more than 80% since then, as oil prices recovered.

For your TFSA portfolio, Suncor could prove a good addition due to its attractive dividend distribution and upside potential. Suncor has a solid history of rewarding investors with growing dividends. This year, Suncor hiked its quarterly dividend by 12.5% to $0.36 per share, marking the 16th year of consecutive annualized dividend increases.

Suncor is certainly in a position to continue with payout hikes. The producer generated the strongest second-quarter cash flow on record, with funds from operations of $2.9 billion and operating earnings of $1.2 billion. And its debt relative to cash flow is already low relative to its Canadian peers.

Trading at $52.27 at the time of writing, Suncor stock has already exceeded the analyst consensus price target for the 12 months. But buying this great energy stocks on the next dip won't be a bad idea.

Canadian Natural Resources

Canadian Natural Resources rode through the oil market's volatility quite well. After hitting a multi-year low in early 2016, its stock has rebounded strongly.

Investors who'd bought this stock during the 2016 share price slump have almost doubled their investment, with CNQ trading close to $44.26 a share at the time of writing.

Its shares are deriving some strength from the company's smart acquisition strategy during the oil downturn. By taking advantage of lower oil prices and its strong balance sheet, CNQ acquired oil sands assets last year from **Royal Dutch Shell** — a move that substantially increased its presence and gave CNQ increased scale and sustainability from long-life assets.

After a strong rally during the past year, there isn't much upside left for CNQ stock, but TFSA investors can keep an eye for the future opportunities if oil prices continue to strengthen. The company also pays a $0.28-a-share quarterly dividend that has been increasing regularly.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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