2 Best-in-Class Canadian Energy Stocks for Your TFSA

Description

Your TFSA is a good place to stick strong, long-term, shareholder-value-creating stocks, so you can benefit from tax-shielding in the future.

Here are two such energy stocks that fit the bill.

Suncor Energy (TSX:SU)(NYSE:SU) is the one energy company that is most immune to the widening Canadian oil differential, and as such, its stock price is pretty much flat versus one year ago.

Suncor has an integrated business model, which means exposure to upstream (production) as well as downstream (refining and processing) services, and little sensitivity to the Canadian oil differential. This effectively means that a large percentage of its oil production goes through its own refineries, which are exposed to Brent or WTI pricing.

In terms of its company-specific history, Suncor has a strong history of consistent shareholder value creation.

In the last six years, the company has grown its dividends per share by a compound annual growth rate (CAGR) of 20%. From 2012 to 2016, production increased at a CAGR of 6%, and from 2016 to 2020, management expects it to grow at a CAGR of 9%.

Suncor has spent the last few years investing in its business, with the goal of increasing efficiencies and driving down costs to be increasingly profitable at lower oil prices as well as to ensure it has a good inventory of production growth opportunities.

Suncor stock currently has a dividend yield of 3.05% after the company raised its dividend by 12.5% earlier this year.

According to management, a $1-per-barrel increase in the price of oil translates into $205 million in annual cash flow for Suncor.

Enerplus (TSX:ERF)(NYSE:ERF) stock has provided shareholders with steady performance in the last year, trading pretty much at the same level as one year ago.

This has been no easy feat though, as most energy stocks are down big in this time frame.

So, why has Enerplus withstood the pressure?

It's simple: the company has been a beacon of strength in the oil and gas sector. Its top-notch balance sheet, operating performance, and cash flow growth profile set it apart from its peers.

With slightly less than half of its production coming from conventional crude oil and 90% of production coming from crude oil in general, this $3 billion oil and gas giant is set up to benefit greatly from rising oil prices.

In 2017, operating cash flow increased 72%, and so far in 2018 operating cash flow has increased 40% to $329 million.

The company's capital plans, which are fully funded, are expected to result in strong production and cash flow growth over the next few years, and management believes, as I do, that this is not reflected in its stock price.

While the dividend yield is low at 1%, this dividend is extremely well covered by cash flows.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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