2 Top Dividend-Paying Energy Stocks for Your TFSA today

Description

In the first week of May, we will hear from oil and gas companies as they update us with their first-quarter results.

In my view, we will see sharp stock price rallies off of these results, as we have seen two very important things happen this year, making the following two energy stocks top additions to your TFSA portfolio this year.

The first is the rise of the price of oil.

West Texas Intermediate (WTI) oil is currently trading at $63.47 (up 49% from December 2018 lows), and Western Canadian Select (WCS) oil price is currently trading at $54.64 (up more than 400% from 2018 lows).

The second thing is the performance of many energy stocks, which has been nothing to get too excited about, especially considering the move of the underlying oil price.

Pason Systems (TSX:PSI) has increased 13% year to date and **Enerplus** (TSX:ERF)(NYSE:ERF) has increased 15%.

While this is not bad, we have to consider that Pason has been stuck in the high-teens/low-20s range for a few years now, and Enerplus is still trading 15% lower than a year ago. These returns don't match the corresponding action in oil prices, so I believe there is a disconnect.

These two things coupled with the already impressive cash flow generation of the following two stocks should have us eagerly adding these stocks before they report their results in early May.

Since 2015, Pason stock has been stuck in the $17-21 range, as the price of oil has been volatile and difficult to predict and as investors have remained wary of energy stocks. But Pason has continued to increase its dividends paid amid strong and rising free cash flows. Currently Pason's dividend yield is a very attractive 3.49%.

Pason has a strong track record. When we look at its history, we can see evidence of strong cash flow generation, consistent dividend increases, and a very profitable business model. The company's patented technology, global diversification, and 3.60% dividend yield make it a relatively safe bet in the risky oil services industry.

In 2018, Pason reported a 25% increase in revenue, a 760-basis-point increase in EBITDA margins, and a 46% increase in funds flow from operations.

Enerplus is one of the best oil and gas stocks that is firing on all cylinders, with a very attractive risk/reward profile for investors. Enerplus has a solid balance sheet behind it, and not only that but the company also continues to crank out cash fast and furiously.

In 2017, its operating cash flow increased 72%, and in 2018 its operating cash flow increased 55% to $739 million, with free cash flow generation of $160 million. With this strong cash flow generation, Enerplus's capital plans are fully funded, taking much risk off the table.

Management has signaled to investors that at oil prices above $50, they will prioritize shareholder distributions over growth.

This means dividend increases are in Enerplus's future; the stock's current dividend yield of 1% is due to get higher.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

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2. TSX:ERF (Enerplus)
3. TSX:PSI (Pason Systems Inc.)

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