2 Top Energy Stocks to Power Your TFSA Past the 7-Figure Mark

Description

When it comes to your TFSA, you don't want to speculate on "get-rich-quick" investments, because more often than not, such "opportunities" (like Bitcoin) are a sure-fire way to lose not just your shirt, but your pants too, as a dollar lost in a TFSA hurts that much more than a dollar lost in any of your non-registered accounts.

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Tax-free compounding over the long term is a powerful effect that can only be described as profound. So, as a Foolish investor, it's your responsibility to weigh the potential rewards against the risks to come up with a risk/reward trade-off that's heavily tilted in your favour. With your TFSA, Warren Buffett's number one rule, "never lose money," is the golden rule that should always be on your mind when on the hunt for the next big TFSA purchase.

At this juncture, energy stocks stand out to me as an area with an extremely favourable risk/reward trade-off. Since the 2014 oil plunge, oil sands stocks like **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), and **Cenovus Energy** (TSX:CVE)(NYSE:CVE) have been major underperformers for investors, but as we look ahead to the next five years, I think the pros heavily outweigh the cons, especially at today's depressed valuations.

In today's unfavourable environment for oil and gas firms, you'd have to be at least a little "nuts" to place a big bet on anything to do with Alberta's troubled oil patch.

Major sovereign wealth funds and other big-league institutional investors have folded on their Canadian energy bets, and given the heavy crude glut and the lack of transportation capacity, it certainly feels as though the Western Canadian Select (WCS) discount is here to stay.

In spite of the already well-known headwinds surrounding the industry, I believe there are catalysts that could propel two of my favourite oil stocks back to the top. The most obvious catalyst is newly elected Alberta premier Jason Kenney and his pro-energy agenda, which could narrow the WCS-to-WTI price gap by a meaningful amount as soon as three years from now.

Goodbye carbon taxes, hello corporate tax cuts, and hello trade spat with B.C. to get those pipelines flowing?

Whether Kenney's seemingly aggressive policies will work wonders for Canadian oil stocks is anybody's guess, but one thing we do know is that the lack of yellow tape will make Canadian energy names more attractive through the eyes of investors, both foreign and domestic.

If you've got proceeds in your TFSA and enough time to see the story unfold, an investment in either Cenovus Energy or Canadian Natural may prove to be a rewarding one.

Cenovus Energy

As the more battered of the two names mentioned in this piece, Cenovus is undoubtedly the stock with more upside in the event of a rebounding in both global oil prices and the narrowing of the WCS-to-WTI price gap.

Management made the wrong moves at the wrong time, and the stock got punished and then some. However, at today's juncture, things are quite different.

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The company's balance sheet has improved thanks to a series of divestments, and with intriguing solvent-aided extraction techniques in the pipeline (pun intended), Cenovus could lead the charge in driving oil sands operating costs lower. Oil sands projects are notoriously expensive, so any cost savings would undoubtedly make oil sands operations as a whole more economical.

The price of admission is ridiculously low at book value and 0.8 times sales. Given the company's promising longer-term trajectory, Cenovus could end up being a multi-bagger bargain provided you're willing to sit on the name for years at a time.

Canadian Natural

If you're looking for more protection from the volatile hailstorm that is the Canadian energy market, Canadian Natural may be more your forté. The company is very well capitalized with a balance sheet that's among the best in the industry.

The company's quality integrated operations allow for a more stable cash flow stream than most other oil players, and that allows management to reward investors with constant dividend hikes.

At the time of writing, Canadian Natural has a 3.7% yield, which is over 2% higher than Cenovus's, so if you're looking for more downside protection, Canadian Natural may be the horse to bet on.

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