



2 Energy Stocks to Buy as the Trans Mountain Expansion Gains Ground

Description

Good news for the [Trans Mountain](#) pipeline expansion means good news for the Canadian energy sector.

Last week, British Columbia's top court reached a decision: the National Energy Board (NEB) approval would be enough to get the expansion going, notwithstanding objections by British Columbia or any other provincial government.

With this, we have a ruling that is positive for the pipeline expansion, and while the ultimate decision is expected on June 18, the feeling is that there is a good chance it will be given the green light.

Almost tripling the capacity of a pipeline that runs from Alberta to a Vancouver terminal, the Trans Mountain expansion would increase daily shipping capacity by 590,000 barrels to a total of 890,000 barrels, giving significant relief to the lack of takeaway capacity that has plagued Canada in the last few years.

Let's review two of the biggest beneficiaries of the Trans Mountain expansion going ahead.

Cenovus Energy ([TSX:CVE](#))([NYSE:CVE](#))

With oil sands projects in northern Alberta and oil production in Alberta and British Columbia, Cenovus Energy stands to benefit big from a positive ruling on the Trans Mountain pipeline expansion.

It is trading below book value today — at 0.8 times book value, to be more precise — and coupled with solid cash flow numbers in the latest quarter, we have an interesting story.

First-quarter 2019 results showed sharply higher adjusted funds flow of \$1 billion (compared to negative \$41 million in the same period last year), and net earnings per share of \$0.09 (compared to a net loss of \$0.53 in the same period last year).

With output cuts unwinding this year and the pipeline expansion possibly getting the green light this

month, Cenovus Energy stock will look increasingly undervalued.

Freehold Royalties ([TSX:FRU](#))

With royalties coming from producers from British Columbia all the way to Ontario, Freehold offers investors a lower-risk way to gain exposure to this trade.

Royalty revenues come from a diversified list of producers with a diversified list of properties and assets, and they come without the need for Freehold to make operational and/or exploration investments.

Freehold offers investors a [dividend yield](#) of 7.54%.

This stock will benefit from positive developments related to the Trans Mountain expansion, but given its lower-risk business model, it is more sheltered from the volatility of the oil and gas sector.

Freehold's dividend covers shareholders while they wait for capital appreciation.

Final thoughts

These two energy stocks will rally much higher if the Trans Mountain expansion gets the green light on June 18, and given that this is looking increasingly likely, I would seriously consider buying them today.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)
3. TSX:FRU (Freehold Royalties Ltd.)

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