Is Buying Energy Stocks for Your TFSA a Good Strategy?

Description

Investors, whose aim is to earn stable income and grow their portfolios gradually, should use their Tax-Free Savings Accounts (TFSA) to achieve this goal and take advantage of the flexible nature of this saving instrument.

But the main challenge for such investors is which kind of stocks are best to buy for their TFSA? One segment of the Canadian market I recommend is energy.

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.

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is one such operator that certainly belong to this group. Let's take a deeper look.

Expanding operations

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 bought this stock during the 2016 share price slump doubled their investment in the next two years when CNQ stock hit $49 a share in the past summer.

But that rebound was stalled when Canada faced its worst pipeline congestion last year, forcing producers to limit their supplies as the country struggles to deal with the infrastructure bottlenecks.

But the company's recent earnings show that Canadian Natural is even benefiting in this environment as the policy allowed the company to improve financial results despite lower production during the period.

In the first quarter, its earnings jumped 65%, driven by higher oil prices due to the supply curtailment.

Canadian Natural, the country's second-largest largest oil company, has been a big proponent of the curtailments that former premier Rachel Notley imposed at the start of the year.

The policy allowed the company to improve financial results despite lower production during the period.

Besides these congestion issues that are affecting the whole energy sector, CNQ has played smartly in the recent oil market downturns.

By taking advantage of lower oil prices and its strong balance sheet, CNQ acquired oil sands assets from **Royal Dutch Shell** in 2017 — a move that substantially increased its presence and gave CNQ increased scale and sustainability from long-life assets.

In another big acquisition announced in late May, Canadian Natural announced to buy the Alberta assets of U.S.-based **Devon Energy Corp.** for $3.8-billion.

Devon Canada has the capacity to produce 128,000 barrels a day, including 108,000 b/d in the oil sands and 20,000 b/d of conventional heavy oil.

According to CNQ, the acquisition would immediately add to earnings per share and free cash flow, while the company expects to be able to gain further benefits by reducing capital and operating costs for the Devon assets.

Bottom line

After a strong rally during the past year, the CNQ stock has retreated so far this year. But that pullback offers TFSA investors a good entry point to buy this strong energy name that pays a growing dividend and is currently yielding 4.5%.

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Date
2025/08/27
Date Created
2019/07/28
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