3 Top Energy Stocks for 2020

Description

The energy sector in Canada is depressed; international money has left to invest elsewhere. The first energy stocks that'll make a comeback when international capital returns to the sector will be large-cap stocks, such as **Suncor Energy** (TSX:SU)(NYSE:SU) and **Enbridge** (TSX:ENB)(NYSE:ENB).

For those looking for more excitement, check out **Encana** (TSX:ECA)(NYSE:ECA) stock, which can deliver greater upside than the two when the energy sector becomes favourable again.

Suncor

Suncor's integrated business model allows it to optimize profits along the energy value chain from the ground to the gas station. Therefore, the company is profitable, even in today's low energy pricing environment. This makes Suncor stock a top choice for conservative investors.

In the trailing 12 months, Suncor generated nearly $7.8 billion of free cash flow and only paid out 32% of it as dividends. Its dividend track record is incredible versus struggling energy companies that had cut their dividends. Specifically, Suncor has increased its payout for 16 consecutive years with a five-year dividend-growth rate of 14.6%.

With strong free cash flow generation and an A-grade balance sheet, Suncor can keep increasing its dividend. Currently, the blue-chip energy stock offers a juicy yield of 4.5%, while investors wait for price appreciation to come. Analysts have a mean 12-month target of $53.20 on the stock for near-term upside potential of 43%.

Enbridge

Enbridge employs a low-risk business model and generates largely contracted cash flows. Therefore, its cash flow generation was stable and growing even through the last recession and energy price collapse.

So, investors can sleep well at night holding Enbridge in their income or retirement accounts. The stock has increased its dividend for 23 consecutive years with a 10-year dividend-growth rate of 15%. The company plans to increase its dividend by 10% next year.

Currently, the stable energy infrastructure stock offers an amazing yield of 6.8%; the dividend is covered by a distributable cash flow-payout ratio of about 66%. Analysts have a mean 12-month target of $53.50 on the stock for near-term upside potential of 23%.

Encana

Investors who are interested in greater price appreciation can look into Encana. Analysts think the stock can double from current levels!

The company’s cash flow generation has had incredible improvement recently. It generated trailing 12-month free cash flow of US$465 million compared to negative free cash flow of US$800 million in 2017.

Its trailing 12-month free cash flow yield is +10%. That’s why it had the capacity to increase its dividend by 25% in the first quarter. Furthermore, Encana is positioned to grow free cash flow in the second half of the year. That said, its yield is still only 1.8%. That makes the natural gas producer a riskier pick than Suncor and Enbridge.

Analysts have a mean 12-month target of US$9.35 per share (roughly CAD$12) on the stock for near-term upside potential of 121%.

Investor takeaway

While small-cap energy stocks have continued to fall off a cliff, large-cap stocks, such as Suncor, Enbridge, and Encana, have been holding their ground lately. When money returns to the Canadian oil patch, these names will be the first to post top price appreciation. In the meantime, investors can get safe and juicy dividends from Suncor and Enbridge.

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kayng