2 High-Yield Energy Stocks to Buy in October

Description

Last month saw a minor rebound in Canadian energy stocks. The S&P/TSX Capped Energy Index jumped 9.6% in September after months of falling with seemingly no end in sight. For most of 2019, oil has been weak, with Western Canadian Select trending downward ever since April. However, last week, the commodity spiked on renewed supply fears stemming from conflict in Saudi Arabia.

Whether or not oil is set for a comeback, many Canadian energy stocks are good buys at current prices. Pipeline stocks in particular can be great buys, since their revenue does not vary heavily with the price of oil. There are also some solid buys among conventional production and extraction companies because they have gotten very cheap.

Taken as a class, energy stocks have some of the highest dividend yields on the TSX, making them great income plays. The following are two that could be great buys heading into October.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a Canadian pipeline company that describes itself as "the world's longest and most complex pipeline network." The company has over 17,000 miles of pipe, which it uses to ship crude and LNG around Canada and to the U.S.

One major development for Enbridge is its Line III replacement project. This infrastructure upgrade is set to increase Enbridge's revenue considerably, as smaller, older pipes are being replaced with newer, wider ones. The Line III project faced many delays in the past but is now set to go ahead, as a court recently refused to hear further challenges to its construction.

Enbridge stock pays a dividend that yields 6.3% at current prices and has been rising by 17% annualized over the past five years.

Suncor Energy

Suncor Energy (TSX:SU)(NYSE:SU) is a Warren Buffett-approved oil extraction and development company. Being a direct oil producer means that it's somewhat vulnerable to weakness in the price of oil. However, the company has a great business model that lets it profit at every stage of the process. Because Suncor extracts, refines, and sells its oil directly to consumers, it ultimately earns more off every barrel than an oil company that earns money by selling to other oil companies.

This business model is not uncommon globally; **Chevron**, for example, sells its own oil through Texaco stations. However, the majority of TSX-listed oil producers and refiners sell their product to American companies, which limits revenue potential. Suncor is therefore better than the class average for its industry.

Apart from the fundamental soundness of its business, Suncor is great as a value or income play. With an 11.63 P/E ratio, it's quite cheap, and with a 4.01% dividend yield, it has a lot of income potential. Over the past five years, Suncor has grown its dividend by 12.4% annualized. If that trend continues into the future, then investors who buy today may enjoy an even better yield tomorrow.

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