Should Climate Change Stop You From Investing in Energy Stocks?

Description

The Canadian Press published an article on Monday that stated that "climate change is the biggest threat to health in the 21st century [and] has been associated with harms to physical and mental health through issues including pollution, floods, wildfires and insect-borne diseases."

One of the causes that enhances the greenhouse effect on the planet is burning fossil fuels, such as oil, which releases more carbon dioxide into Earth's atmosphere.

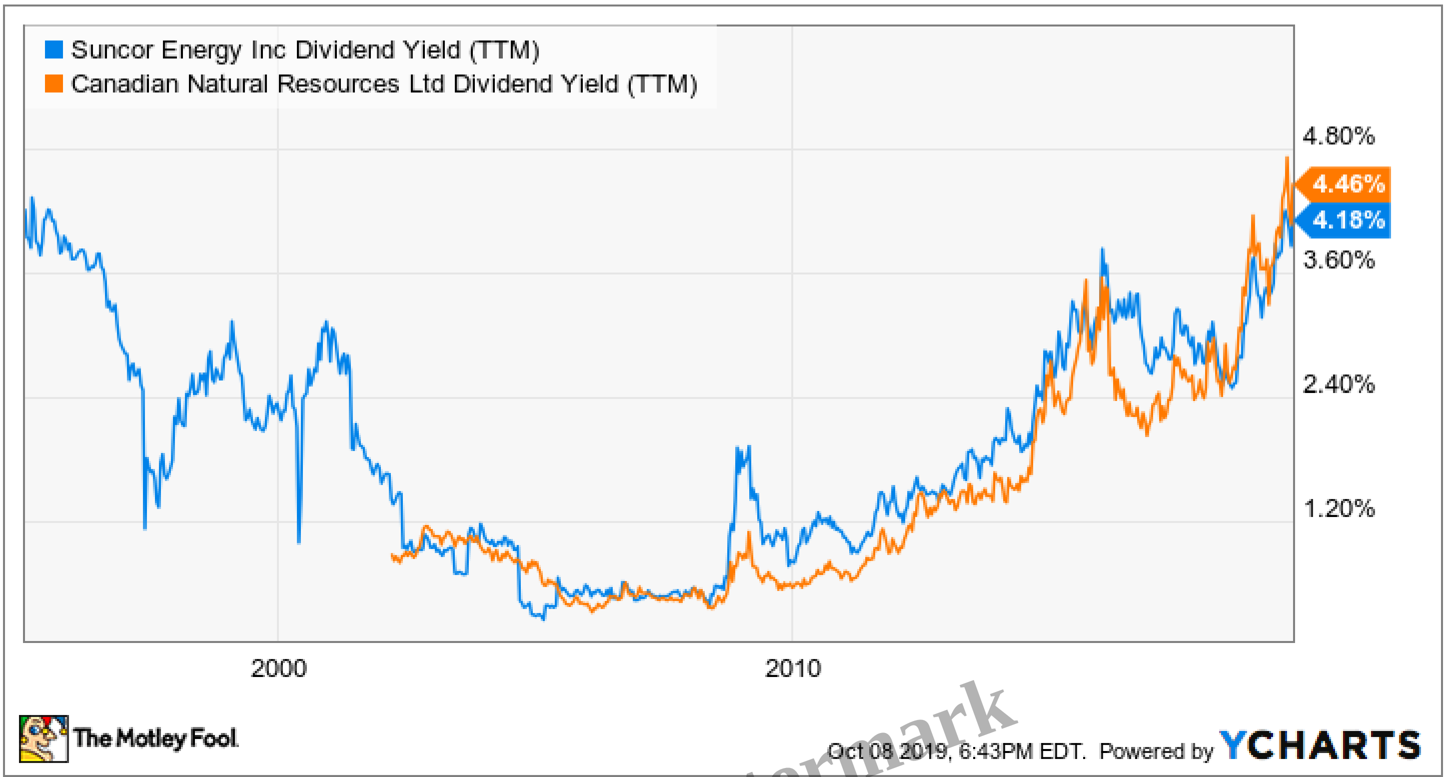
Although there has been an exponential growth in electric and hybrid vehicles globally (65% per year from 2015 to 2018 according to Statista), the percentage of vehicles run by fossil fuel still makes up the majority.

The global demand for crude oil is expected to increase, even if only marginally. Statista estimates the demand to increase by 1.4% this year over 2018.

Should you invest in energy stocks?

Judging solely from an investment perspective, a business may be worth your investment if it makes nice profits and is attractively priced. Therefore, investors should look at the fundamentals of individual energy stocks to determine if they're worthy investments.

Two Canadian energy stock darlings that you can consider today are **Suncor Energy** (TSX:SU)(NYSE:SU) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ).



Dividend Yield (TTM) data by YCharts. Historical dividend yields of Suncor and CNQ.

Suncor Energy

Over the last century, [Suncor] has evolved into a diversified and integrated energy conglomerate. It has built the capability to optimize profits along the energy value chain from production to the gas station.

Its four refineries in Alberta, Ontario, Quebec, and Colorado have a combined capacity of 462,000 barrels per day and yield a spectrum of refined products, including light oils, gasoline, diesel fuels, and more.

Suncor seems to have adapted to lower energy prices. Since 2017, its free cash flow generation has increased from $2.4 billion to almost $7.8 billion. In the trailing 12 months, it only paid out 32% of its free cash flow as dividends.

This bolsters the confidence that already radiated from its glowing 16-year dividend-growth streak. Specifically, SU stock's 10-year dividend-growth rate is nearly 22%! The stock is currently good for a safe yield of 4.3%.

What's even better is that Suncor has an A-grade balance sheet, and the stock is undervalued with 38% upside potential, according to analysts' average 12-month price target of about $53.

Canadian Natural Resources

Since its founding in 1973, [Canadian Natural Resources] has become a key producer of conventional oil and gas with a diverse base of long-life and low-decline assets.

Like Suncor, Canadian Natural Resources appears to have adapted to lower energy prices. Since 2017, CNQ's free cash flow generation has increased from $2.5 billion to $4.6 billion. In the trailing 12 months, it generated free cash flow that comfortably covered the dividends it paid by 2.8 times.

On top of that, CNQ has increased its dividend per share for 18 consecutive years. Specifically, its 10-year dividend-growth rate is 21%! Thanks to its rising payout over many years and a 28% correction in the stock since the summer of 2018, CNQ stock currently provides an all-time high yield of 4.6%.

CNQ's balance sheet is solid, and the energy giant is awarded an investment-grade S&P credit rating of BBB+. The stock is undervalued with 40% upside potential according to analysts' average 12-month price target of about $46.

Foolish takeaway

Buy quality and profitable businesses when they're cheaply priced, and you'll be rewarded with long-term returns. With regards to energy stocks, you might want to take (at least some) profits when there's good news.

Stay hungry. Stay Foolish.

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