Oil Crash 2020: 2 TSX Energy Stocks That Are Immune to Oil Prices

Description

Energy stocks have lost significant value in 2020. The **Energy Select Sector SPDR ETF** is down 40% compared to the 15% decline in the **SPDR S&P 500 ETF**. It could be several months before oil prices normalize. The consumer demand should remain tepid in the near term due to global lockdowns amid the COVID-19.

However, there are a few energy companies that can make a strong comeback if oil demand gains pace. We'll look at two such companies that are well poised to move higher in the second half of 2020.

Canada's largest energy company

Shares of Canada's energy giant, **Enbridge** (TSX:ENB)(NYSE:ENB) are trading at $44.62, which is 22% below 52-week highs. The stock gained over 3% yesterday on the back of strong quarterly results.

Enbridge is not an oil producer and generates a significant portion of cash flows through long-term contracts. This makes Enbridge largely immune to falling oil prices. However, the Canadian energy giant was impacted due to lower demand driven by the COVID-19 pandemic.

Its liquids mainline system generally operates at or close to full capacity and generates predictable cash flows across economic cycles. The rapid decline in gasoline and jet fuel consumption resulted in sharp cuts in crude oil production. Its throughput fell from an average of 2.84 million barrels per day to 400,000 thousand barrels per day in the March quarter.

Enbridge expects this weakness to continue in the second quarter as well. Despite the recent weakness, Enbridge's adjusted EBITDA in Q1 was up 0.2% year over year at $3.769 billion. Its distributable cash flow rose by 1.9% to $2.758 billion and the dividend-payout ratio stood at a healthy 59%.

Enbridge is positive about achieving its full-year forecast. This indicates it will generate cash flow between $4.50 and $4.80 per share. The company pays a dividend of $3.24 per share that remains safe.

In order to strengthen its balance sheet, Enbridge will cut capital expenditures by $1 billion and reduce operating costs by $300 million in 2020. Enbridge also sold $400 million of assets, providing it with some financial flexibility in the current macro-environment.

TC Energy

Another Canadian energy company that should outperform peers is **TC Energy** (TSX:TRP)(NYSE:TRP). The stock is trading at $64.18, which is 16% below 52-week highs. In the first quarter, TC Energy managed to increase EBITDA by 6.4% to $2.54 billion. Its funds from operations were up 16.9% year over year at $2.09 billion and cash flow per share rose 14.9% to $2.23.

In Q1, TC Energy experienced 7.4% sequential revenue growth in its Canadian natural gas pipeline segment. Its U.S. natural gas pipeline business revenue was up 6.2%, while Mexico’s natural gas pipeline sales rose 84%. This growth was offset by a sales decline of 21% in its liquids pipeline business due to lower volumes.

TC Energy is well diversified and will invest over $40 billion in expansion projects that should be completed by 2023. Its funding for these projects has been secured, making it one of the best bets in the energy space.

Similar to Enbridge, TC Energy is also a pipeline company and generates 95% of cash flows from contractual and regulatory arrangements. TC Energy’s recent pullback in stock price has meant its dividend yield stands just shy of 5%. It expects to grow dividends between 8% and 10% next year and this growth is forecast between 5% and 7% thereafter.

In case you invest $10,000 each in Enbridge and TC Energy, you will generate close to $1,230 in annual dividends.

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