2 TSX Energy Stocks With 30% Upside in 2020

Description

In the current market environment, the **TSX** stocks that most investors are looking to buy are companies with stable business models.

The problem is, with so many investors flocking to utility and consumer staple stocks, the valuations have increased considerably.

So an investor wanting to buy one of these stocks has to make a choice. Do you overpay to add defense, or take your chances with your portfolio as it is now?

But what if you don't have to choose between value and stability?

Pembina Pipeline Corp (TSX:PPL)(NYSE:PBA) and **AltaGas Ltd** (TSX:ALA) are both trading well undervalued, and with their resilient operations, can add stability to a portfolio.

TSX midstream stock

Pembina is a midstream TSX energy stock that has shown its resiliency already. Management reiterated guidance for 2020 earnings before interest, taxes, depreciation, and amortization (EBITDA) of between $3.25 and $3.55 billion. However, actual results will likely be toward the low end, which is understandable.

One thing that is helping the company to mitigate the impact of COVID-19 is its deferral of capital expenditure in 2020 and the cost savings that it's finding. Both of these are crucial to keeping Pembina in a strong financial position with operations that are running smoothly.

In the first quarter, the company managed to earn free cash flow per share of $1.05, which was down only 8% from 2019.

In my view, a decline of 8% is extremely impressive, given that the stock is still 40% off its high. Not to mention, that discount is even after it rallied 90% from the bottom in March.

At this pace, if Pembina were to earn 2020 free cash flow at a rate of 8% less than 2019, the per-share rate would be roughly $4.

This would give Pembina a price to free cash flow of just under 8 times. And that's compared to what it was at the end of 2019, roughly 11.5 times.

Its $2.52 dividend, which yields roughly 8%, should have a payout ratio of free cash flow below 65%. That's a highly stable dividend, which goes to show just what a high-quality TSX stock Pembina is.

In the current environment, Pembina is worth $40 at the very minimum. So with at least $25% upside in the share price and an 8% dividend, Pembina is priced to offer a significant return to investors buying at this discounted price.

High-growth TSX utility stock

AltaGas sold off non-core assets and improved its financial position at the perfect time last year. The improved makeup of its business has positioned the TSX stock well to weather the current economic environment.

In the first quarter, AltaGas managed to earn free cash flow per share of $1.37 compared to $1.27 from the same quarter last year. That's an increase of roughly 8% in a quarter when it faced significant headwinds.

What's also impressive to note from the first-quarter earnings is that management has reiterated its 2020 guidance, which it also put in place before COVID-19.

Guidance suggests EBITDA of roughly $1.3 billion and earnings per share (EPS) between $1.20 and $1.30.

The impressive results in the first quarter and unchanged guidance prove just how robust a business AltaGas has. However, in addition to having stability, AltaGas also has considerable growth potential.

The TSX stock's new export terminal, which offers Canadian energy producers' exposure to Asian markets, should provide significant growth opportunities. This is especially true as management creates better access to the facility through rail infrastructure and other logistical efficiency upgrades.

AltaGas is clearly a high-quality stock, but what really makes it a buy today is its cheap valuation. Currently, AltaGas is trading at a forward price-to-earnings (using the low end of its guidance for EPS) of roughly 13 times. That's compared to most TSX utility stocks, which are trading at closer to 20 times earnings.

This suggests AltaGas is worth closer to $20. From here, $20 share prices represent roughly 30% upside in the TSX stock. In addition, the company pays a dividend that currently yields 6.2%.

Bottom line

Both these midstream energy companies are triple-threat TSX stocks. They are significant dividend-payers, offer investors great long-term growth potential, and are well undervalued.

Most importantly though, these stocks have stable operations. Plus, over the next 12 months, investors could see returns north of 30% from both these stocks.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:ALA (AltaGas Ltd.)
3. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing

Date
2025/07/06
Date Created
2020/05/15
Author
danieldacosta