TSX Energy Stocks: Dividend Bargain or Trap?

Description

While stocks have been hit hard across the board recently, the energy sector has been hurting more than most sectors. This has driven investors to search for dividend bargains with TSX energy stocks.

However, the issues at hand for these stocks could amount to more than just some short-term market turbulence. Material changes to the way these stocks do business could have lasting effects on their yields and valuations.

It's not enough to simply offer investors a large yield, as there are many blue-chip stocks doing the same. These stocks need to also instill confidence in investors that the business is resilient to economic headwinds.

Today, we'll look at two TSX energy stocks and whether they might be dividend bargains or yield traps for investors.

Suncor

Suncor Energy (TSX:SU)(NYSE:SU) is an oil production company based out of Calgary, Alberta. Given the state of the oil market recently, this TSX energy stock has been hit hard.

Recently, the company reported year-over-year quarterly revenue growth of -17.7% and huge losses. As a result, the stock cut its dividend by more than 50%.

As of this writing, SU is trading at $23.08 and yielding 3.64%. While the yield might be safer now given the recent large cut, its now quite paltry compared to other blue-chip dividend stocks.

That's why I think SU might be a great cautionary tale for the next stock in this article.

SU was looking like a bargain buy when its yield was in excess of 7% in recent months, with investors citing its resiliency and strong backing.

However, with the yield cut by more than half, I'd say there are stocks with less risk and higher yields on the market today.

Enbridge

If **Enbridge** (TSX:ENB)(NYSE:ENB) is to follow a similar path to SU, it might be best to steer clear of the pipeline giant as well.

While this TSX energy stock isn't a direct producer of oil, its entire business practically relies on the transportation of oil.

With less oil being produced as a result of cut-rate prices, it stands to reason that ENB could see a dip in business.

In fact, ENB posted year-over-year quarterly revenue of -6.6%.

As a result of these conditions, ENB's payout ratio has skyrocketed. This might be another red flag to suggest that the yield could be on the chopping block.

As of this writing, ENB is trading at $41.23 and yielding 7.86%, with a payout ratio over 300%.

That doesn't sound like a very sustainable yield for the time being. While the reward is certainly there for investors in the form of a nearly 8% yield, the risk is certainly there.

Investing with ENB today would essentially be placing a bet that the yield won't get cut as it did for SU.

For risk-loving investors, this might be worth a look. However, many blue-chip stocks with more stable yields can be found on the TSX today.

TSX energy stock strategy

The TSX energy stocks are in a precarious position these days. With great economic pressures, yields have already been sliced for stocks like SU and could be on the chopping block for stocks like ENB.

While there's some reward to be had here for risk-loving investors, the risk-to-reward ratio seems heavily skewed towards risk.

For now, it seems like these two TSX energy stocks might be closer to yield traps than dividend bargains.

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1. Dividend Stocks
2. Energy Stocks
3. Investing

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