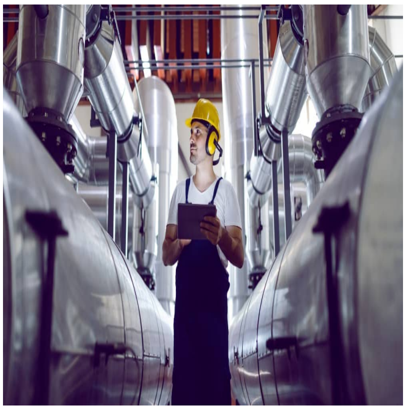

Market Rally in Energy Stocks: Which Are Safe Bets Now?

Description

The market is trading at near all-time highs. The market rally has clearly been driven by certain areas. For example, energy stock prices have skyrocketed, as oil prices recovered to more normalized levels.

In the last month, many energy stocks experienced rallies of 40-60%. For example, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) stock is up 45% and **Whitecap Resources** stock climbed 58%.

Is CNQ stock a buy now?

Although the profits of both stocks more or less rely on commodity prices, CNQ has incredibly maintained its dividend-growth streak throughout the pandemic. This suggests a very well-run company with management that takes care of shareholders.

Specifically, CNQ is a Canadian Dividend Aristocrat with 19 consecutive years of dividend increases. Its quarterly dividend is 13% higher than it was a year ago, equating to an annualized payout of $1.70 per share. At about $31 per share at writing, the energy stock yields close to 5.5%.

CNQ is actually expected to report a loss this year. However, because of its strong cash flow generation, year to date, it was able to pay largely for its dividend with free cash flow.

The large-cap company could generate ample free cash flow thanks to reducing its net capital spending by two-thirds.

CNQ stock is already trading close to its 12-month price target. So, interested investors should wait for another selloff to be on the safe side. That said, if you have an investment horizon of at least three years, CNQ stock can trade in the $40 range again for upside of about 38%.

Here’s an energy stock that offers a similar dividend yield as CNQ but is a safer bet.

Buy this energy stock instead

TC Energy (TSX:TRP)(NYSE:TRP) stock is a safer investment than CNQ. The energy stock has delivered incredibly resilient results this year. The defensive business generates about 95% of comparable EBITDA from rate-regulated assets or long-term contracts.

Year to date, TC Energy reported a revenue decline of only 3%, while its earnings per share increased by 15%, resulting in a payout ratio of about 68%.

The value stock only climbed 7% in the last month. It'd need to climb an additional 30% to get back to its 52-week high.

At $58 per share, TC Energy is undervalued with an average 12-month price target that represents 20% near-term upside potential.

Like CNQ, TRP has increased its dividend for 19 consecutive years. Its dividend is 8% greater than it was a year ago. Investors should look forward to another dividend increase of about 8% again in Q1 2021. This would imply a forward yield of close to 6%!

The Foolish takeaway

TC Energy is a lower-risk energy stock than Canadian Natural Resources. The former is less volatile and more undervalued right now. In fact, there's a good chance that TRP can trade in the +$70 per share level within the next two years while paying a safe and lucrative dividend.

Long-term average market returns are about 10%. Here's an opportunity to buy a blue-chip dividend stock that secures more than half of that return from its consistent dividend. Therefore, TRP is especially suitable for conservative, low-risk investors today. We're looking at total returns potential of 30-40% over the next two years.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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POST TAG

1. Editor's Choice

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2. NYSE:TRP (Tc Energy)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:TRP (TC Energy Corporation)

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