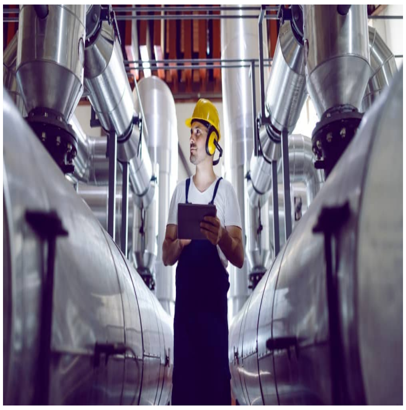

Choose These 3 Energy Stocks to Celebrate the Sector's Recovery

Description

2020 was terrible for many sectors, but it was worse for others. One of the sectors the suffered most during the pandemic was energy. Thanks to low travel around the globe, the demand slumped, and the surplus oil tainted the market for a relatively long time. The sector has finally started to recover.

In 2021, the S&P/TSX Capped Energy Index has grown over 31%. Even though the sector and the underlying companies are a far cry for what they used to be before the Great Recession, the current recovery bout *might* see the sector reach its 2019 position.

If you believe that energy is making a comeback and might stay profitable for several coming years, there are three energy stocks that should be on your radar.

A natural gas company

Buffett restored a lot of trust in natural gas when he invested a significant sum for buying a gas pipeline. So, you might consider **TC Energy** (TSX:TRP)(NYSE:TRP). The 20-year-old aristocrat has recently grown its payouts by 7.4% and probably offers one of the most stable payout ratios in the sector. The 6.56% yield is reason enough to consider this aristocrat.

The stock is fairly valued right now, with a price to earnings of 11.4 and price to book of 1.9. The balance sheet is strong, and the revenue grew quite substantially in the last quarter of 2020. If the company can sustain the revenue growth, it might attract more investor confidence, and the stock will most likely follow.

A pipeline company

Pembina Pipeline (TSX:PPL)(NYSE:PBA), even though it wasn't a rapid grower even before the pandemic, is one stock that packs both (i.e., a mouthwatering 8% yield and capital growth potential). Even now, when the stock is down 32% from its pre-pandemic peak, the company has a 10-year CAGR of almost 11%. Even though the yield comes with a not-so-ideal payout ratio (155%), it has sustained its dividends through worse.

Pipeline companies like Pembina are often considered relatively safer than companies directly associated with drilling or refining; since their revenues are tied to long-term contracts, they tend to suffer the consequences of weak oil demand in about the same way. Pembina's revenues, even though they have recovered quite a bit, are still low compared to its 2019 revenues.

A manufacturing company

While **Terravest Industries** (TSX:TVK) isn't purely an energy company, it develops vessels and provides services to the energy sector. So, it's both included in the sector as well as relatively sheltered from the sector's significant dips. Compared to other energy companies that didn't start recovering properly till the end of 2020, Terravest reached quite near its recovery peak within four months.

But a fast recovery is not the primary attraction of Terravest. The company has an impressive capital growth history, evident from its robust five-year CAGR of 27.5%. This growth level can efficiently expedite your portfolio's maturity by a significant margin. The company has proven in the 2020 crash that despite its heavy dependence on the sector, it can survive the headwinds that are brutal enough to knock other energy stocks to the ground.

Foolish takeaway

The three stocks combined can boost your portfolio's dividend and growth potential if they can carry on with their recovery momentum. Terravest also offers a yield of 2.29%, which is quite generous considering its growth pace. And if the energy sector has a bright future, considering these stocks now, when they are still relatively discounted, might be the way to go.

CATEGORY

1. Dividend Stocks
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