Got $3,000 to Invest? 2 Top Canadian Stocks for a TFSA Today

Description

TFSA investors are searching for undervalued, top Canadian stocks to add to their portfolios.

Why Suncor Energy stock looks cheap today

Suncor (TSX:SU)(NYSE:SU) is Canada's largest integrated energy company with production, refining, and retail divisions. The balanced nature of the revenue stream with assets across the value chain has historically helped Suncor weather drops in oil prices better than its peers.

The pandemic, however, is a new scenario. Oil prices plunged due to a crash in fuel demand rather than as a result of supply issues. Travel restrictions and work-from-home policies over the past year killed demand for jet fuel and gasoline. These are core products made by Suncor's refineries. A reduction in commuters led to a plunge in visits to Suncor's Petro-Canada fuel stations.

WTI oil has already rebounded to pre-pandemic levels and could head much higher by the end of the year and through 2022. Fuel demand in Canada will eventually recover, as vaccines become more widely available and the third COVID-19 wave subsides. By the end of 2021, airlines should see some restrictions lifted, and office workers will likely hit the highways again for a few days per week.

Suncor stock currently trades near $25 per share compared to more than $40 in early 2020. If oil prices hold their gains and fuel demand bounces back by the middle of next year, Suncor should see revenue and profits recover.

Near-term volatility is expected, but Suncor stock appears undervalued today for buy-and-hold TFSA investors.

Pembina Pipeline still looks oversold

Pembina Pipeline (TSX:PPL)(NYSE:PBA) has a 65-year history of providing Canadian energy companies with key midstream services.

The business has grown over the decades through strategic acquisitions and organic developments. With a market capitalization near $20 billion, Pembina Pipeline is large enough to be a buyer as the sector consolidates yet still small enough to become a takeover target by one of the industry giants.

Pembina Pipeline reported decent 2020 results, despite the pandemic challenges. Adjusted EBITDA came in at $3.28 billion compared to $3.06 billion in 2019.

Management moved quickly last spring to shore up the balance sheet and defer $1 billion in capital projects. The prompt moves allowed Pembina Pipeline to maintain the dividend hike it put in place at the beginning of 2020 before the pandemic. As the oil and gas industry recovers this year and into 2022 Pembina Pipeline intends to get the secured capital program back on track. In addition, Pembina Pipeline has an additional $4 billion of unsecured development opportunities that could get the green light and support revenue growth.

Pembina Pipeline pays its dividend monthly. That’s great for TFSA income investors who use the investments to generate a steady stream of tax-free earnings.

The stock trades near $37 per share compared to $53 before the 2020 market crash. Investors who buy at the current price can pick up a 6.8% dividend yield and simply wait for the share price to drift higher as the energy sector recovers.

The bottom line for top TFSA stocks

Suncor and Pembina Pipeline are top Canadian stocks that remain out of favour. The share prices appear cheap right now but could surge on a rebound in fuel demand.

If you have some cash available, these stocks deserve to be on your radar.

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1. Investing

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:PPL (Pembina Pipeline Corporation)
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