2 Cheap Energy Stocks With Great Dividends

Description

While the overall market appears a bit overbought these days, dividend investors can still find good deals in certain sectors, including Canadian energy stocks.

Imperial Oil

Imperial Oil (TSX:IMO) tanked in the early part of the pandemic. Since then, the stock has staged a steady rebound on the recovery in oil prices and a positive outlook for fuel demand.

Imperial Oil has production, refining, and retail divisions. The balanced revenue stream would normally provide a decent hedge against volatility in oil prices, but the pandemic crash hit all three groups. Margins plunged in the upstream segment while the crash in fuel demand hit refineries and gas stations.

As airlines ramp up capacity and commuters get back on the road, the downstream businesses should see a continued recovery through the end of the year and into 2022.

Imperial Oil raised its dividend by nearly 23% earlier this year as higher oil prices resulted in a surge in cash flow. The increase of the quarterly payout from $0.22 to $0.27 surprised the market and helped send the share price higher. West Texas Intermediate (WTI) is down from its 2021 high but still trades near US$70 per barrel, which is a very profitable price for Imperial Oil.

The stock trades at $34 per share compared to the 2021 high of $41, so investors have a chance to buy on a nice dip. At the current share price Imperial Oil stock provides a decent 3% yield. Investors should see another large hike to the payout in 2022. In addition, the company intends to repurchase up to 5% of the outstanding common stock over the next year top of the 4% of the float the company bought back in Q2 2021.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is a giant in the Canadian energy sector with a market capitalization of $52 billion. The company is primarily known as an oil producer with resources that include oil sands, offshore oil, conventional heavy oil, and conventional light oil. CNRL is also a major natural gas producer with significant production and vast landholding in key resource basins.

The company is a cash machine at current energy prices. Pundits expect oil to maintain or extend its price gains through 2022 as the global economy reopens. Natural gas held up well last year and is currently trading near its highest price in a decade. In the Q2 2021 earnings report, CNRL said it is on track to generate at least $7.2 billion in free cash flow in 2021. Assuming oil and gas prices remain near current levels, 2022 will bring a profit bonanza for CNRL and its shareholders.

The board raised the dividend by 11% in 2021. CNRL is using excess cash to reduce debt and buy back shares and that will continue next year. In addition, it wouldn't be a surprise to see the company boost the dividend by more than 20% in 2022.

The stock trades near $44 at the time of writing. That's down slightly from the 2021 highs. Even with the strong rally off the 2020 lows, CNRL still looks cheap. The market might not fully appreciate how much free cash flow this business could generate in the coming years.

Investors who buy now can pick up a 4.3% dividend yield.

The bottom line

Imperial Oil and CNRL are top Canadian energy stocks that raised their payouts in 2021 and should deliver large distribution gains in 2022. The stocks appear cheap today and offer attractive yields for dividend investors.

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1. Energy Stocks
2. Investing

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3. TSX:CNQ (Canadian Natural Resources Limited)
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