2 Top Energy Stocks to Buy for Dividend Income

Description

Canadian oil and gas producers and the infrastructure stocks that move the commodities appear undervalued right now. This gives dividend investors a chance to buy top companies at reasonable prices and collect attractive yields.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is a major force in the Canadian energy patch. The company operates production sites that cover the full spectrum of the hydrocarbon profile. This includes oil sands, conventional heavy oil, light oil, offshore oil, and natural gas.

CNRL is generating strong revenue and cash flow at current energy prices. At the time of writing, WTI oil is above US$70 per barrel, and oil bulls say it could top US$80 next year amid strong demand and a slow return of additional supplies by OPEC members.

Natural gas currently trades at its highest price in a decade, and the long-term demand outlook for natural gas should be robust. Countries around the world see natural gas as a reliable option to replace coal and oil for power production until renewable energy installations can meet power demand.

CNRL raised its dividend by 11% in 2021 and another generous increase should be on the way next year. Management expects free cash flow to top $7 billion in 2021. The stock trades near $44 per share at the time of writing and provides a 4.25% dividend yield. Assuming energy prices hold their 2021 gains or move higher next year, it wouldn't be a surprise to see CNQ stock top $50 in the next 12 months.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) doesn't produce oil or natural gas, but it is a key player in the transportation of the commodities to their customers. In fact, Enbridge's oil pipelines, natural gas transmission, gas storage, and gas utility businesses are key to the smooth operation of the Canadian and U.S. economies. Enbridge moves a quarter of the oil produced in the two countries and transports 20% of the natural gas consumed in the United States.

Enbridge also has a growing renewable energy division with existing facilities and growth projects that include wind and solar installations.

Nearly half of the company's EBITDA comes from the gas transmission, gas distribution, and power businesses. Oil and gas liquids pipelines account for the rest.

Enbridge has a great track record of dividend growth. The increases in the next few years might not be as high as historical hikes, but investors should still see dividend growth in line with anticipated 5-7% growth in distributable cash flow. Enbridge raised the dividend in each of the past 26 years with a compound annual dividend-growth rate of 10%.

The company recently announced the US$3 billion acquisition of a strategic light crude export platform on the U.S. Gulf Coast. Enbridge is big enough that it can do these types of tuck-in deals to drive revenue growth. Getting new major pipelines built is difficult these days, but Enbridge still has opportunities for organic developments. The company will bring projects valued at $10 billion into service in 2021.

The stock trades near $51 per share at the time of writing and provides a 6.5% dividend yield.

The bottom line

CNRL and Enbridge are leaders in their respective sectors and have strong track records of dividend growth. The stocks appear attractive at current share prices and offer generous dividend yields for investors seeking reliable passive income.

CATEGORY

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3. TSX:CNQ (Canadian Natural Resources Limited)
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