



This Is My Top Energy Stock Pick for 2022

Description

Do you think the stock market is unpredictable? You're not alone. Market volatility makes it easy for new investors to lose money when they watch stock prices too closely and react to them. Particularly, energy stocks can swing wildly due to rallies or corrections in energy prices, making the stocks difficult to invest in.

If you're looking for an energy stock to buy and reap benefits from, while you can sit back and relax, you should check out my top energy stock pick for 2022 and beyond — **TC Energy** ([TSX:TRP](#))([NYSE:TRP](#)).

A buy-and-hold dividend stock

TC Energy has been growing stably for more than half a century. It just passed the \$100 billion mark in assets last year during the pandemic. The dividend stock generated revenue of \$13.1 billion, net income of almost \$2 billion, and operating cash flow of approximately \$7 billion over the trailing 12 months. Furthermore, the company enjoys an investment-grade S&P credit rating of BBB+.

It's clear that TC Energy is well positioned for continued growth, as the world needs ever more energy, and cleaner energy at that! Natural gas is a relatively clean energy source. However, the company noted that all forms of energy supply, including natural gas, renewables, oil, nuclear, and coal, will be required to meet the global energy demand.

The company's quality energy infrastructure portfolio primarily consists of natural gas pipelines in the United States, Canada, and Mexico. These assets are complemented by liquids pipelines and power storage assets.

TC Energy intends to change its portfolio mix over time, as the transition to cleaner energy unfolds. For instance, it anticipates growing the weight of its power and storage portfolio as well as continuing to invest in its natural gas pipelines.

Reasonable valuation

The [dividend stock](#) is slightly undervalued today. At under \$59 per share, it trades at a price-to-earnings ratio (P/E) of roughly 13.8, while its long-term normal P/E is close to 19. According to a 19 times multiple, the stock is undervalued by about 27%. However, the company recently lowered its dividend-growth forecast, which will weigh on the stock over the near to medium term. So, 20 analysts have a 12-month average price target of \$67.20 per share on TRP, indicating a discount of about 12%.

Enjoy a big dividend that's growing

Investors really don't have to do anything to get a decent return from the big-dividend stock. TC Energy's current yield is close to 6%. Additionally, management expects to grow its dividend by 3-5% per year. This is a growth rate that's down from its last dividend increase of about 7%. Instead of higher dividend growth, management is allocating more capital to its multi-year capital program of \$29 billion.

A midpoint dividend-growth rate of 4% on a 6% yield would still generate approximated total returns of about 10% per year. Valuation expansion can further add 2-3% annually, leading to total returns of about 12-13%. That's a very solid return for [passive investors](#) to simply buy shares and do nothing for, say, the next five years.

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kayng

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