2 Top Energy Stocks for TFSA Passive Income

Description

The energy sector is generating significant free cash flow in the current environment, and TFSA investors are seeing the rewards through rising dividends and share buybacks. Demand for Canadian oil and natural gas demand is expected to increase over the next two years, setting the stage for strong profits and dividend growth.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) has oil, gas liquids, and natural gas production facilities along with vast reserves that can be tapped in future years. The product mix includes oil sands, heavy oil, light oil, offshore oil, and natural gas. CNRL typically owns its assets rather than partnering with other oil producers. This means the company has the flexibility to shift capital around the portfolio to take advantage of positive price moves in the different products.

CNRL has a great track record of dividend growth. The board recently raised the quarterly dividend by 28% to $0.75 per share. This is the 22nd consecutive year the company has increased the payout, which is impressive given the volatility of the oil and gas markets over the past two decades. CNRL increased the payout twice in 2021 for a combined jump of 38% compared to the 2020 distribution. The compound annual dividend-growth rate is about 22% over the past two decades.

The reliability of the dividend is one reason the stock price has rebounded so strongly from the pandemic crash. Even with the huge gains since the 2020 plunge, CNQ stock still trades at an attractive 12 times trailing 12-month earnings.

At the time of writing, investors can pick up a 3.9% dividend yield. Another generous payout increase is likely on the way next year. CNRL is also buying back up to 10% of its outstanding common stock under the new share-repurchase program.

Suncor

Suncor (TSX:SU)(NYSE:SU) used to be the darling of the Canadian energy sector, but it fell out of favour with investors in the past two years due to operational challenges and the decision by the board in 2020 to cut the dividend by 55%. Suncor had always maintained or increased its payout during previous downturns in the oil sector, so the move came as a big surprise to long-term holders of the stock who relied on Suncor for steady passive income.

Suncor used most of the 2021 profits to buy back stock and pay down debt. The board then raised the dividend by 100% late in the year to bring the payout back to the 2019 level. Investors are still upset, and Suncor's stock price gain continues to trail its peers.

With this in mind, there should be a contrarian opportunity in Suncor stock today. Management would like to get the stock out of the doghouse, and it wouldn't be a surprise to see another significant dividend increase announced with the Q1 or Q2 2022 results.

Suncor's downstream refining and retail operations should deliver strong profits in 2022, as fuel demand rises. Airlines are ramping up capacity at a rapid pace for the second half of 2022, and large corporations are starting to bring workers back to the office. This will drive up gasoline demand from commuters.

At the time of writing, Suncor provides a 4% dividend yield.

The bottom line on top energy stocks to buy for passive income

Oil demand is expected to remain strong for the coming years, and CNRL and Suncor are generating strong profits at current oil prices. This should support significant dividend growth for investors and push the share prices higher.

If you have some cash to put to work in a TFSA focused on passive income, these stocks deserve to be on your radar.

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
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