2 Canadian Energy Stocks for Growing Dividends and Huge Returns

### Description

Canadian energy stocks have soared over the past few weeks. It has paid being a contrarian investor in Canadian oil and gas stocks. This year alone, the **S&P/TSX Capped Energy Index** is up nearly 75%! That is compared to the **S&P/TSX Composite Index**, which is down -2%.

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## Plenty of reasons to still be bullish on Canadian energy stocks

There are many reasons to be bullish on energy stocks.

Firstly, the war in Ukraine and embargoes against Russia are disrupting and restraining global oil supply.

Secondly, the ESG movement has capped many large energy producers from increasing production.

Thirdly, with the pandemic abating, people are eager to fly and drive. That all means energy demand should be unusually high this year.

Finally, Canadian energy companies are leaner and wiser than ever. At prices over US$100 per barrel, they are generating a huge amount of excess cash. Many are quickly reducing debt and then choosing to return the cash back to shareholders. As debt goes down, cash returns go up.

Consequently, investors are in for significant dividend increases, special dividends, and share buybacks. If you are looking for some outsized cash returns in 2022 and potentially beyond, here are two Canadian energy stocks I'd consider owning today.

## Cenovus: A leading integrated Canadian energy stock

**Cenovus Energy** (TSX:CVE)(NYSE:CVE) is not as well known as larger integrated producers like **Suncor** and **Canadian Natural Resources.** However, that is why it is an attractive opportunity.

It has diversified energy production operations, but it also refines oil. It produces close to 800,000 barrels per day, so it operates at significant scale. The great news is both sides of its business are operating very well. It generated $1.8 billion of free cash in the first quarter alone.

Currently, Cenovus has $8 billion in net debt. It is hoping to halve that by year-end or early 2023. After, it plans to return 100% of excess cash back to shareholders. It just increased its base dividend by 300%, but there is likely more to come in future quarters.

This Canadian energy stock only earns a 1.4% annual dividend yield today. However, as long as oil prices remain elevated, the chances of significant special dividends and large share buybacks increase. For a large-cap energy stock, Cenovus is still one with significant upside in returns.

## ARC Resources: Big upside for a conservative business

Another great Canadian energy stock to consider today is **ARC Resources** (TSX:ARX). It is Canada's third-largest natural gas producer. Like oil, natural gas is trading at a multi-year high, especially outside Western Canada. This has been favourable for ARC's business.

Last quarter, it generated $410 million in free cash flow after paying its dividend. While much of that went to reduce debt, ARC did increase its base quarterly dividend by 20%. Today, it pays a $0.12 dividend per share every quarter. That equals a 2.31% dividend yield.

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ARC plans to allocate 50-80% of its excess cash to shareholder returns. ARC trades at a substantial discount to its other natural gas peers. Consequently, share buybacks appear to be a good use of capital. However, as debt declines, it will likely further increase its base dividend again.

For a Canadian energy company focused on long-term sustainability, this is a great stock. It has long-life assets, strong fundamentals, and trades at a steep discount. All these factors make this a solid long-term energy stock to buy and hold.

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