3 TSX Energy Stocks With Outstanding Dividend Growth

Description

Energy stocks have been the best-performing sector on the **Toronto Stock Exchange** (TSX) this year. It is no surprise when considering crude oil is now trading over US$120 per barrel. Canadian energy stocks are leaner, more efficient, and more productive than ever.

Plenty of dividends ahead if oil prices remain elevated

Consequently, these stocks are gushing excess cash. Rather than invest in more production, Canadian oil companies are returning the cash back to shareholders. This is coming in the form of share buybacks, base dividend increases, and special dividends. If investors want to enjoy outsized cash returns in 2022, the energy patch is the place to be.

Here are three TSX energy stocks that have already grown their dividend significantly. Chances are very high that they will deliver outstanding dividend growth going forward.

Cenovus: A TSX large-cap energy stock

A large-cap TSX energy stock to consider is **Cenovus Energy** (TSX:CVE)(NYSE:CVE). This may come as a surprise because it only trades with a meagre 1.8% dividend yield today. Yet last quarter, Cenovus increased its annual dividend by 300% to $0.42 per share. On top of that, it has delivered an 83% capital return so far this year alone.

Cenovus is one of Canada's largest energy producers and refiners. It has done a great job of integrating Husky's refining assets into its portfolio. It just announced that it plans to maximize its stake in the Sunrise oil sands asset. This will significantly bolster production and cash flow growth this year.

Given where oil is, Cenovus is generating a lot of cash. It will likely hit debt targets sooner than expected, and that means a rising base dividend and stock buybacks are coming soon.

Parex Resources: A mid-cap energy stock

Another TSX energy stock that just drastically increased its dividend is **Parex Resources** (TSX:PXT). After its first-quarter 2022 results, the company announced that it would increase its quarterly dividend by 79% to $0.25 per share. That was a 100% increase from the year prior, when the company did not pay a dividend.

At $28 per share, it now trades with an attractive 3.5% dividend yield. While it operates completely in Colombia, it generates very profitable, market-leading netbacks on every barrel it produces.

This TSX energy stock is already debt free. In fact, it is sitting on $286 million of spare excess cash. Consequently, Parex is targeting some large share buybacks (10% of its share count in 2022) and further dividend returns later this year.

Tamarack Valley: A TSX small-cap energy stock

With a market capitalization of $2.6 billion, **Tamarack Valley Energy** (TSX:TVE) is the smallest of these Canadian energy stocks. That gives it the highest leverage to strong oil prices. Tamarack is located in some very prolific and economic plays in Alberta. It can generate free funds flow at as low as US$35 per barrel.

At US$120 per barrel, it is generating significant spare cash. While it is focused on aggressive debt reduction at the moment, it did just increase its monthly dividend by 20% to $0.01 per month. This TSX energy stock only yields 2% right now.

However, once it hits its debt reduction targets in the second quarter, it expects to deliver an outsized shareholder return. That could include share buybacks and likely a substantial special dividend. If oil prices are sustained, it could potentially yield a 14% dividend yield this year!

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1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)
3. TSX:PXT (PAREX RESOURCES INC)
4. TSX:TVE (Tamarack Valley Energy Ltd)

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