2 High-Yield Energy Stocks to Buy as a Recession Approaches

Description

Some TSX energy stocks have lost more than 20% of their value. Undoubtedly, the second half of 2022 isn't shaping up to be any less gloomy, with a U.S. Federal Reserve and Bank of Canada ready to hike rates, even as GDP numbers slowly begin to fall. While some pundits argue we're already in a recession, I'd take such bearish commentary with a fine grain of salt, especially if you're in it for the long run.

TSX energy stocks, one of the last places to hide from market volatility, may be under considerable selling pressure. With a potential recession on the way, there's a real chance that demand could fold quickly, as it did in the first half of 2020.

Undoubtedly, commodity prices are highly volatile, and they can be hard to predict, given they trade on macro events that are nearly impossible to predict. Given their volatile and uncertain nature, does it mean energy stocks are in the no-fly zone for value investors with oil at north of US$105 per barrel?

The case for buying energy stocks in the face of recession

History suggests oil could settle far lower than US$100 per barrel. Still, most energy stocks are well equipped to continue generating considerable sums of cash flow at such levels.

Though oil prices are miles higher than where they are historically, I think many energy names are already priced with a margin of safety in mind. With economic pain on the horizon, many energy stocks were quick to slump. However, a recession still is not guaranteed. Further, it seems unlikely that Russian sanctions will conclude anytime in the near future.

For those lacking any energy exposure, the oversold TSX oil stocks seem like intriguing pick-ups on the latest dip. In this piece, we'll have a closer look at producer **Suncor Energy** (TSX:SU)(NYSE:SU) and pipeline **TC Energy** (TSX:TRP)(NYSE:TRP).

Suncor Energy

Suncor Energy is an intriguing integrated energy play that clocked in a marvelous beat for the first quarter, with $13.5 billion in revenue and $1.92 in per-share earnings (beating the $1.55 analyst estimate).

The surprising EPS beat, I believe, is just the first of many, as Suncor continues to benefit from the rising tide in the energy sector that could grant the firm more cash flow than it needs to maintain operations. For investors, that means generous dividend hikes could be on the horizon.

Suncor slashed its payout in the early innings of this pandemic (shares yield 4.16% today). Now that the wind is at its back, I'd be unsurprised if Suncor makes up for lost time with massive dividend increases that may also induce considerable share price appreciation.

At 10.5 times trailing earnings and 1.5 times sales, Suncor stock is a dividend-growth bargain in my books.

TC Energy

For those seeking a more utility-like way to play the upbeat energy sector, it's hard to top TC Energy. With a juicy 5.4% dividend yield at writing and a below-average 0.79 beta, TC Energy is a low-volatility way to play an otherwise highly volatile sector.

For the first quarter, results were pretty much in line with expectations. Though the midstream company doesn't have as much upside potential if oil were to move past US$150 per barrel, I think many prudent investors seeking to batten down the hatches for a choppy second half will do well with TRP stock at these valuations.

With a $5 billion Mexican gas pipeline project that could bolster long-term cash flows, I'd look for TC to continue rewarding shareholders with generous dividend hikes every single year moving forward. That's excellent certainty in a time of profound uncertainty.

At writing, the stock trades at 4.8 times sales and 20.1 times trailing earnings.

CATEGORY

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2. NYSE:TRP (Tc Energy)
3. TSX:SU (Suncor Energy Inc.)
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