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

Description

The year 2022 has not spared anyone. High-growth tech stocks have been tumbling since the beginning of the year, while crypto has been no exception. Even safe havens like gold and utilities have been weak. And recently, energy names also joined the bear camp on recession worries.

While the roaring inflation and imminent steeper rate hikes suggest an economic downturn, it would be prudent for investors to get defensive. Energy names would still be well placed because of their pricing power and their sound financial shape. Moreover, experts see demand falling much lower than severe supply constraints in case of recession.

So, the demand-supply imbalance could continue to support higher crude oil prices, at least in the short to medium term. So, here are two top TSX energy dividend stocks.

Canadian Natural Resources

Canada's biggest energy company by market cap, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) is one of the strong names in the sector. It currently yields 5% — higher than TSX stocks. The stock has lost 25% since last month and is sitting at a 15% gain for 2022.

Crude oil prices increased substantially in the last few quarters, thanks to the war in Europe and stable demand growth. This led to a massive increase in energy companies' earnings and free cash flows.

Canadian Natural saw its earnings surge from $1.38 billion in Q1 2021 to $3.1 billion in Q1 2022. Aggressive debt repayments due to solid earnings brought its balance sheet in much better shape compared to pre-pandemic levels.

Driven by strong profitability and a solid balance sheet, the company also increased its shareholder dividend by 50% for 2022. CNQ will pay a dividend of $3.00 per share this year compared to $2.00 last year.

Moreover, its Q2 earnings will likely see much steeper earnings growth due to the record oil price rally.

So, investors might see more dividend hikes and rallying stock. So, even if oil prices fall significantly from the current levels, dividends from CNQ seem safe and unlikely to be trimmed.

Enbridge

Canadian energy pipeline operator **Enbridge** (TSX:ENB)(NYSE:ENB) is a relatively safer bet, thanks to its low correlation to volatile oil prices. ENB stock has fallen a mere 8% from its recent highs, outperforming oil-producing names.

ENB stock currently yields 6.2%, one of the highest among top TSX stocks. In addition, it has increased shareholder payouts for the last 27 consecutive years, indicating dividend stability and reliability.

Enbridge's stable earnings and low-risk business model facilitates consistently growing dividends. Even if oil and gas prices vary, its cash flows are not much bothered of them because of its long-term, fixed-fee contracts. So, investors can expect a 5-7% increase in their dividends annually for the long term.

If you want to play an oil price rally, ENB might not be an apt pick. But if you are looking for stable, regularly increasing dividends with lower risk, ENB could be a fitting bet.

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