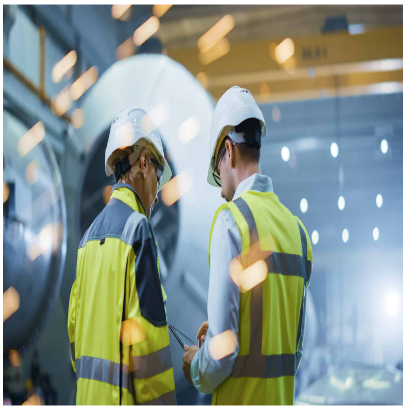

2 High-Yield Energy Stocks to Buy as Recession Approaches

Description

While stocks across sectors have experienced a sell-off year-to-date, energy companies have outpaced the broader markets by a wide margin. However, due to the recent decline in oil prices, a few **TSX** energy stocks are now trading 20% below 52-week highs.

The last five months of 2022 are expected to remain volatile as the Federal Reserve and Bank of Canada are likely to keep raising interest rates to combat inflation. Unfortunately, hawkish monetary policies will likely throw global economies into a recession.

Historically, energy stocks have trailed indices in a recession due to low consumer spending. But a few energy companies have a low-cost structure which allows them to thrive across business cycles. Here, I analyze two high-yield dividend-paying energy stocks Canadian investors can buy right now.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is one of the largest companies on the TSX. It has a history of delivering profitable growth and currently offers investors a forward yield of 4.5%. In addition, CNQ's balanced asset base provides several opportunities for growth in each of the company's core areas and product offerings.

Further, its ability to generate free cash flow allows Canadian Natural Resources to invest in long-term development opportunities, including off-shore projects, oil sands mining, and clean energy solutions.

Since 2020, Canadian Natural Resources has increased dividend payouts by 76% on the back of higher natural gas and crude oil production. Rising oil prices have meant CNQ's net earnings in the last six months rose to $6.6 billion, compared to $2.92 billion in the year-ago period. Its adjusted funds flow in Q2 stood at $5.43 billion, up from $3.05 billion in the prior-year quarter.

Shares of Canadian Natural Resources have returned close to 70% in the last 12 months. But the stock is still reasonably valued at 5.6 times forward earnings.

In addition to dividend payouts, the energy giant has a share repurchase program. It's authorized to buy back 102 million shares or 10% of its total outstanding shares, which should significantly improve its bottom line.

TC Energy

Shares of **TC Energy** (TSX:TRP)(NYSE:TRP) are up 11% in 2022, easily outpacing the TSX index. TC Energy transports and stores energy in North America and generates the majority of revenue from its vast network of natural gas pipelines.

TC Energy's cash flows are backed by long-term contracts, making it relatively immune to fluctuations in commodity prices. These contracts are indexed to inflation, providing the company with reasonable pricing power and the ability to derive profits even in a downward cycle.

Further, TC Energy offers investors a forward yield of 5.4%. It expects to increase EBITDA (earnings before interest, taxes, depreciation, and amortization) by 5% through 2026, which should fuel its dividend payouts in the future. In the last two decades, TC Energy's solid financials and cash flows have enabled it to increase dividends by 7% annually.

TC Energy is one of the safest bets in Canada's energy sector, and the stock is valued at 15 times forward earnings which is acceptable.

Analysts tracking TC Energy stock have a 12-month average price target of $71, which is 10% higher than its current trading price. After accounting for dividends, annual returns will be closer to 16%.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:TRP (Tc Energy)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:TRP (TC Energy Corporation)

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