2 High-Yield Energy Stocks to Buy in Today's Market

Description

Canada's Big Six banks had a dividend bonanza in late 2021 when the banking regulator lifted restrictions on dividend hikes. The country's top lenders had massive excess capital from provision for credit losses (PCLs), because credit quality of loan portfolios didn't deteriorate.

In 2022, energy companies are generating robust free cash flows (FCF) and reporting soaring profits. Shareholders' returns are increasing through share buybacks and dividend payments. There's no limit on how much the companies can reward investors, as long as commodity prices remain elevated.

If you're chasing dividends from energy stocks, **Enbridge** (TSX:ENB)(NYSE:ENB) and **Gibson Energy** (TSX:GEI) are generous dividend payers. The average dividend yield is 6.085%. Assuming you invest $12,500 in each, you can generate $380.31 in passive income every quarter.

No-brainer buy

Enbridge is a no-brainer buy, because it's the TSX's top-tier energy stock. In the ranking by Brand Finance, the $112.48 billion energy infrastructure company is 16th out of the top 100 value brands in Canada for 2022. At $55.55 per share (+17.76% year to date, the dividend yield is a hefty 6.19%.

The total return of 56,314.14% in 46.43 years is proof the energy stock is an investment for the long haul. Enbridge operates in a volatile sector but has defensive qualities that can overcome economic downturns. More importantly, its four blue-chip franchises provide essential services to North America's oil and gas midstream industry.

Business segments such as liquid pipelines, gas transmission, gas distribution and storage, and renewable power are the sources of Enbridge's diversified cash flows. Growth is on the horizon because of the nearly $13 billion worth ($3.6 billion newly secured projects) of secured growth program.

According to management, it has $5 to $6 billion in annual capacity to fund the growth projects. Enbridge derives the funds from internally generated free cash flow. Because this energy stock boasts a dividend-growth streak of 27 consecutive years, would-be investors can expect growing income streams every year.

Pure dividend play

The size of Gibson Energy is only 3% of Enbridge, although it's a pure dividend play given the 5.98% dividend offer. At $24.76 per share, the year-to-date gain is 13.76%. In the last 12 months, the company has paid a total of $211.37 million in dividends.

Gibson, a $3.62 billion liquids infrastructure company, has been operating in the same industry as Enbridge since 1950. It engages in the storage, optimization, processing, and gathering of liquids and refined products.

In the second quarter (Q2) of 2022, management reported a net income of $35.91 million, or an 11% increase from Q2 2021. For the first half of the year (six months ended June 30, 2022), net income grew 34.9% year over year to $87.88 million.

Steve Spaulding, Gibson's president and chief executive officer (CEO), said the performance of the operating segments (marketing and infrastructure) in the second quarter were in line with management's expectations. Spaulding was also delighted with the Biofuels Blending Project coming into service.

For the rest of 2022, Gibson plans to deploy $100-$125 million of growth capital and intends to continue share repurchases.

Inflation hedge

Industry experts predict oil demand and prices to increase by winter. Taking a position in high-yield energy stocks is one of the best options to earn passive income and create an inflation hedge at the same time.

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