3 TSX Energy Stocks to Buy for Fast-Growing Passive Income

Description

TSX energy stocks have been the top-performing sector in Canada this year. With the price of oil trading as high as US$120 per barrel this spring, many energy stocks made record earnings and free cash flow in the second quarter. Despite oil declining to the US$80 range, many oil and gas stocks continue to be well positioned for the future.

TSX energy stocks are primed to grow their dividends

Firstly, they have drastically reduced debt. Balance sheets are fast improving. Secondly, years of low prices forced oil and gas producers to reduce excess costs, operate more efficiently, and maximize profits.

Thirdly, rather than spending excess cash on costly drilling programs, most producers are focused on paying excess cash back to shareholders. Lately, there has been a wave of announcements for substantial share buybacks, base dividend increases, and special dividends.

Combine these shareholder returns with cheap valuations, and TSX energy stocks are a perfect place for income and capital upside. Here are three of my favourite energy stocks for fast growing passive income right now.

Vermilion Energy

Vermillion Energy (TSX:VET)(NYSE:VET) doesn't pay a big dividend — yet. Right now, its stock only yields 1%. However, it just raised its quarterly dividend 33% to $0.08 per share. That is a long shot from the $0.23 per share monthly dividend Vermillion paid in 2019.

However, the company is focused on rapidly reducing debt in 2022. It has heavy exposure to extremely high European gas prices. It expects to earn $1.9 billion of excess cash this year.

Once it hits debt targets later this year, it plans to return 50-75% of excess cash right back to shareholders. That means 2023 could be a huge year for share buybacks and further base dividend increases. At 3.5 times earnings, this is one of the cheapest mid-sized TSX energy stocks you can find.

Tourmaline Oil

A stock that has already hit its debt targets and is gushing dividends is **Tourmaline Oil** (TSX:TOU). This leading natural gas producer is the poster child for where most TSX energy stocks hope to be. It has already hit net zero debt on its balance sheet.

The company has great, efficient assets with long reserves. Last quarter, it produced $1.35 billion of cash flow. It just increased its annual cash flow guidance to $6.58 billion — a 28% increase!

Like Vermillion, Tourmaline does not earn a high dividend yield. At $82, it yields 1%. However, that doesn't account for the $4.75 of special dividends per share that it has paid so far this year. Given its strong outlook, these special dividends are likely to keep coming to shareholders.

Canadian Natural Resources

If you are looking for a larger upfront dividend, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) is the ideal TSX energy stock. At $71.8 per share, it is yielding 4%. You can't beat the quality of its assets, operations, and management team. It produces oil and gas with factory efficiency and at an extreme low-cost.

It has increased its dividend by a 22% compounded annual rate for the past 22 years! Not many Canadian stocks have that sort of high-quality dividend history.

At the start of the year, this TSX energy stock increased its quarterly base dividend by 28% to $0.75 per share. In August, it also announced its first (likely of more to come) special dividend worth $1.50 per share. For quality and income, CNQ is one of the best stocks you will find for growing passive income right now.

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2. NYSE:VET (Vermilion Energy)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:TOU (Tourmaline Oil Corp.)
5. TSX:VET (Vermilion Energy Inc.)

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