2 Energy Heavyweights With Bountiful Dividend Yields

Description

Energy stocks have been a pretty weird trade over the past year. They've been incredibly resilient, rallying in the face of a bear market, only to eventually slip off their peaks on the back of retreating oil prices. With WTI (West Texas Intermediate) prices hovering in the US$85-90 range, many plays in the oil patch still have plenty of quarters of strength ahead. Even as a recession looms, energy could continue to hold its own, especially with oil production cuts led by the Organization of the Petroleum Exporting Countries (OPEC).

Indeed, OPEC's production cuts could mark the end of the recent oil pullback. Unfortunately, elevated energy prices may also be doing no favours, as the Federal Reserve looks to beat down inflation. With energy stocks bouncing back on the OPEC-drive oil surge, I'd argue that now is as good a time as any to give many of the cash-rich energy producers and pipelines a second look.

Looking to the Canadian oils for value and dividends

Oil and other fossil fuels may be an ESG (environmental, social, and governance) unfriendly investment, but there's no denying the huge cash flows to be had in this elevated oil price environment. In terms of what you'll get (growing dividends and less correlation to the S&P 500 or TSX Index) for what you pay, it's tough to stack up against the energy firms.

At the end of the day, exposure to commodities can help your portfolio better withstand an economic downturn. Improving upon the diversification factor while carefully considering value can only do your long-term portfolio favours as we enter what could be a hurricane of earnings downgrades.

In this piece, we'll have a look at **Canadian Natural Resources** (TSX:CNQ) and **Enbridge** (TSX:ENB), a producer and a pipeline that both boast impressive dividends for absurdly low prices of admission. With OPEC cuts and a "mild" recession on the horizon, it's these recently corrected energy plays that may help you score a positive total return in what's sure to be a challenging year.

Canadian Natural Resources

Canadian Natural Resources is the king of the Canadian oil patch. Despite soaring nearly 36% year to date, shares remain dirt-cheap at just 7.7 times trailing price to earnings (P/E). For a mature energy company that could continue benefiting from economies of scale (think low costs of production), CNQ stock strikes me as a winner that can keep on winning in this environment.

After surging more than 16% over the past week on the back of OPEC production cuts, CNQ stock is within striking distance of new highs. Recently, TD Securities named CNQ as an Action List Buy (one of TD's best investment ideas). Analyst Menno Hulshof cited the stock's relative underperformance as unwarranted. Indeed, CNQ may be a behemoth at $72.1 billion, but it still faces considerable upside as the energy windfall continues into 2023. Finally, the 4.04% dividend yield seems ripe for picking.

Enbridge

Enbridge is a former passive-income staple that many slept on when shares fluctuated wildly following the 2014 drop in oil prices. With the energy industry now in a healthy spot, it seems like the "market darling" days are returning for Enbridge shareholders. As long as the tides remain steady in the oil patch, I expect the perfect balance of capital gains and dividend hikes from Enbridge.

Indeed, the company raised its payout, even during its worst slump in decades. Just think about the sort of dividend hikes that could be in the cards now that oil is comfortably above US$80 per barrel.

Energy prices could fluctuate massively from here. Regardless, investors can seek shelter in ENB stock, which is less sensitive to the likes of a CNQ when it comes to those day-to-day moves. With a 6.73% dividend yield, ENB stock is an income bargain.

The firm's natural gas business and renewable energy shift are long-term positives that could help it evolve with the times.

CATEGORY

1. Energy Stocks
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2. NYSE:ENB (Enbridge Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:ENB (Enbridge Inc.)

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