TFSA Investors: The Best TSX Energy Stocks for Fast-Growing Passive Income

Description

If you are looking for passive income for your Tax-Free Savings Account (TFSA), the energy sector is presenting attractive value right now.

Hold traditional and renewable energy stocks in your TFSA

Traditional oil stocks continue to be very cheap. Yet oil and gas stocks have fast-improving balance sheets, and most are earning a significant amount of excess cash. While fossil fuel energy may be surpassed by renewables one day, that day is likely decades away.

Renewable energy stocks have fallen in the past year. Several of these stocks are trading significantly below where they were even a year ago. Many of these stocks have long foreseeable development pipelines. These should sustain years of growth.

While oil stocks are a good near-term trade, renewable stocks have decades to create value. Given this dynamic, here are my two favourite TSX energy stocks to hold for passive income in a TFSA.

A top TSX energy stock for growing passive income

If there is one Canadian energy stock that would fit nicely in a TFSA, it is **Canadian Natural Resources** (TSX:CNQ). With a price-to-earnings (P/E) ratio of 7.5 times, CNQ is not the cheapest Canadian energy stock. Likewise, its 4.2% dividend is attractive, but it is not massive either.

However, the company makes up for it. With 1.33 million barrels of oil equivalent, it is one of the largest energy producers in North America. It has a durable balance sheet, multi-decade assets, a streamlined operating platform, and a top management team with high insider ownership.

Already, CNQ has delivered a monster year, where net earnings per share have nearly doubled and adjusted funds from operation (AFFO) has risen by over 70%. Already, CNQ has returned over $10 billion of cash to shareholders by increasing its dividend (twice this year), paying a special dividend

($1.50 per share), and buying back stock.

CNQ has grown its dividend for 23 consecutive years. That is a rare accomplishment in the energy space. As its debt comes down, excess cash should continue to increase and so too will dividends. All these factors combined make CNQ a great passive-income stock for long-term TFSA investors.

A renewable energy stock for your TFSA

Brookfield Renewable Partners (TSX:BEP.UN) stock is down 17% in 2022. Today, it is yielding close to 4.5%. Like CNQ, I would not call BEP the cheapest renewable stock. It trades with an enterprise value-to-EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio of 23 and a price-to-funds from operation (FFO) of 16.8. This suggests that there could be more downside, but the recent pullback is making BEP stock more interesting for a long-term TFSA buy.

Brookfield is one of the largest pure-play renewable power stocks in the world. The company has some very enviable long-life hydropower assets that are complemented by a mix of wind, solar, battery, distributed generation, and now nuclear projects.

It has a huge growth backlog that could last several decades. Brookfield has a lot of debt, but 97% is fixed, and it has a weighted term to maturity of 12 years. Overall, its balance sheet is well positioned.

Year to date, it has grown adjusted EBITDA and adjusted FFO by 7% and 6%, respectively. Brookfield has raised its dividend for nine consecutive years. Its dividend has increased by a 6% compounded annual growth rate. It targets 5-9% annual dividend growth.

For an incredibly diversified, high-quality portfolio of renewable assets, Brookfield is a wonderful stock for strong long-term growth in passive income.

CATEGORY

1. Energy Stocks
2. Investing

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1. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
2. TSX:CNQ (Canadian Natural Resources Limited)

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Date
2025/08/12
Date Created
2022/12/01
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