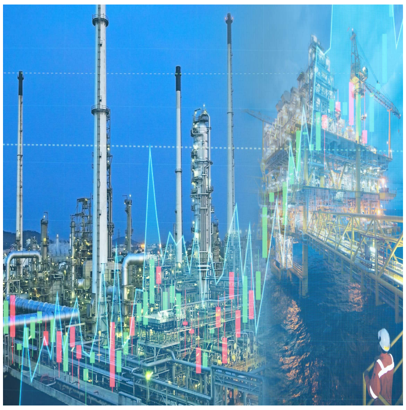

With Interest Rates Rising, This TSX Energy Stock Is a Smart Buy

Description

Even if investors cheered the last milder-than-expected inflation report, that was too early to celebrate. Interest rate hikes will likely continue next year as well, with a bleak inflation outlook. Corporate earnings growth will likely take a big hit in 2023, given the adamant inflation, supply chain woes, and growing recession fears. But there is one bright spot amid all this gloom and doom: energy.

Why could energy continue to outperform in 2023?

I agree that some might disagree on this and point to a recent decline in oil prices. However, energy is among the very few sectors that is expected to see stellar earnings growth next year. Plus, oil and gas producers have a unique pricing power, where they can pass their rising costs burden to their customers. As a result, they will not be as ill impacted by the record-high inflation in 2023 as other sectors.

Moreover, North American oil and gas producers are sitting on some of the best balance sheets they have ever seen. They have repaid massive amounts of debt this year. Interestingly, even if oil prices fall, the focus will still be deleveraging, making them financially sturdier. That's why West Texas Intermediate (WTI) crude oil prices have dropped 20% since early October, but TSX energy stocks have rather gained marginally.

Certainly, the recent crude oil volatility has been brutal and made even seasoned investors wary of it. This is because we are treading in one of the most eventful weeks of 2022 for global energy markets. Oil prices ought to be crazy, as we are still in the early days after the G7 put a price cap on Russian oil. Chinese re-openings are still uncertain, and OPEC (Organization of Petroleum Exporting Countries) just kept its previous output cut plans intact.

So, investors should note that this kind of volatility in oil markets will likely persist in the short term. The downside from here looks limited, though, especially as the U.S. plans to refill its strategic reserves at around these levels.

So, what could be a decent bet in the energy sector going into 2023?

Top TSX energy stock for 2023

One of my favourite TSX energy stocks is **Canadian Natural Resources** (TSX:CNQ). It has a long-life, low-decline asset portfolio with a massive scale and strong operational execution. It will likely see superior earnings growth in 2023 with higher production in the Clearwater oil play.

Apart from the earnings growth, its balance sheet has attained a sound shape this year. Its net debt has dropped from $22.6 billion at the end of 2020 to $13.5 billion as of the third quarter of 2023. The company bought back billions of shares and issued a special dividend to boost shareholder returns amid windfall cash flows this year.

CNQ stock has returned a notable 45% this year. It increased a regular dividend twice this year and currently yields 4.5%. Note that the company raised dividends for the last 23 consecutive years by 21%, compounded annually.

Many TSX energy stocks look well placed for 2023 amid their improving shareholder return setup. But CNQ looks to differentiate them mainly due to its scale, earnings-growth prospects, and solid dividend profile.

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