Worried About Inflation? 2 TSX Energy Stocks That Actually Benefit From it

Description

As inflation and interest rates continue to soar, the expenses of companies have increased, leading to profit margin degradation. So, investors are looking for stocks that can protect their investments until macro weakness subsides. Accordingly, the search for inflation-beating investments is underway.

That said, the question remains: where should you look?

I think commodities-related companies stand to provide the most inflation protection in this difficult time. Here are two top energy stocks that I think are worth considering for those looking to wage this battle.

Stocks to battle inflation: Suncor

Based in Canada, **Suncor Energy** (TSX:SU) is among the largest integrated energy companies in the country. Suncor specializes in producing, refining and transporting petroleum and petroleum-based products in Canada as well as internationally. This organization is the largest producer of bitumen in the world. Moreover, Suncor is also engaged in the production of heavy crude oil and natural gas.

The company's recent earnings have been impressive, tied to surging commodity prices. Thus, Suncor has increased its quarterly dividend to $0.52 per common share. This translates to an increase of 11% over the prior quarter. As improved operational efficiencies have been gained, the company has focused on returning capital to shareholders. Thus, more share buybacks and dividend hikes remain likely for this energy juggernaut.

Notably, Suncor stock appears to be performing above analyst expectations. In the third quarter (Q3), the company beat earnings per share estimates by four cents. Should this continue, this 4.3%-yielding energy stock could get more attention, particularly with its inflation-resistant business model.

Cenovus Energy

Like Suncor, **Cenovus Energy** (TSX:CVE) is a major player in the Canadian energy sector. Rising oil and gas prices have provided a boon to Cenovus's balance sheet, at a time when surging energy prices are hurting the average consumer.

While overall commodity prices have dipped of late, Cenovus's valuation has remained relatively steady. Much of this has to do with the company's very strong performance, including net income growth of 195% year over year. Revenue also surged by 38% year over year, but it's the company's profit and cash flow improvements that have investors looking positively upon CVE stock.

Those growth rates are what most investors would expect from a tech company.

Accordingly, in this slow-growth market, energy stocks such as Cenovus are among the few places investors can find meaningful growth and dividend yield. While CVE stock yields only 1.9% at the time of writing, the company's surging free cash flow could lead to more dividend hikes or special dividends down the road. Thus, now may be the best time to get into this high-quality energy stock.

Bottom line

Both Suncor and Cenovus Energy have the potential to outperform its peers in the current environment, despite surging inflation and interest rates. Thus, investors who are worried about inflation may want to consider buying these stocks right now.

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