Passive-Income Seekers: 3 Top Canadian Energy Stocks to Buy in 2023

Description

Canadian energy stocks are the place to look for passive income if you don't mind a bit more volatility and risk. Energy stocks are dependent on the price of commodities like oil and natural gas. As a result, they are inherently riskier investments.

Canadian energy stocks are still earning *a lot* of cash

Fortunately, over the past few years, Canadian energy companies have been working to drastically reduce debt, improve operational efficiency, and prudently manage growth and capital expenses. As a result, they can profitably produce energy, even if prices were to decline to an extent

The energy sector remains very cheap, so that also helps to provide some margin of safety for investors. The good news is that many Canadian energy stocks are generating tonnes of excess cash at current prices.

With balance sheets in good shape, much of that excess cash is being returned to shareholders in the form of share buybacks, base dividend increases, and special dividends. If you don't mind some extra risk, these leading Canadian energy stocks look like good buys for passive income in 2023.

CNQ: The top dog for dividend growth

You really can't find a better energy stock to own than **Canadian Natural Resources** (TSX:CNQ). It is the largest energy producer in Canada. It has the efficiency of scale that helps offset risk that comes with the sector. In fact, even if oil were to drop to US$30 per barrel (not likely), CNQ can still maintain its base dividend and profitably run its operations.

CNQ has paid and grown its dividend for 22 consecutive years. Last year, it increased its dividend twice and paid a $1.50 per share special dividend. More dividend growth is likely.

Today, this stock earns a 4.6% dividend yield after a recent pullback. It is not the cheapest energy stock, but it is one of the highest-quality names.

Suncor: Canadian energy turnaround stock

If you want a bit of turnaround story, you might want to consider another large cap stock like **Suncor Energy** (TSX:SU). Suncor has underperformed the Canadian energy sector for several years. The company has had both operational and safety issues that have kept investors on the sidelines.

Recently, Suncor is making efforts to reverse these trends. It has an activist investor involved who is looking to maximize shareholder returns. This Canadian energy stock still yields a lot of cash. Likewise, it is quickly improving its balance sheet.

Its current $0.52 per share quarterly dividend is up 147% over last year. Right now, Suncor stock trades for only six times free cash flow, and it trades with a 4.9% dividend yield. If you believe in the turnaround story, this dividend yield is nice compensation while you wait.

PPL: Less risk but higher dividend yield

If you want to downgrade your risk to energy prices, you may just want to buy **Pembina Pipeline** (TSX:PPL). You can think of it as a picks-and-shovels play on the Canadian energy sector. Pembina operates a network of collection and egress pipelines, midstream and processing facilities, and export terminals. It is an essential services provider and over 85% of its revenues are contracted.

This helps support its 5.7% dividend. It doesn't have the same dividend-growth profile, as the two stocks above, but it also doesn't have the same volatility exposure to the price of oil.

This Canadian energy stock is well managed and it has a solid balance sheet. The company has excess capacity in its network, so it has some attractive incremental growth at a very limited cost. Chances are good its dividend will continue to grow at a low single-digit rate in the coming years.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:PPL (Pembina Pipeline Corporation)
3. TSX:SU (Suncor Energy Inc.)

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Date
2025/08/16
Date Created
2023/01/11
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