2 Top TSX Energy Stocks That Could Beat Suncor

Description

The energy sector is one of the well-positioned industries for 2023. The cash flow visibility and sound financial position of energy companies since the pandemic will likely be key drivers for value creation this year.

Although the entire sector looks attractive, only some of the TSX oil and gas names will rally from here. Their valuation and free cash flow growth prospects are evidently better than others, which will make the difference.

Canada's oil sands giant **Suncor Energy** (TSX:SU) belongs to the other camp and has largely underperformed. It returned 40% in 2022, lagging behind peers that returned over 50%. It's not like Suncor Energy is a bad bet in the Canadian energy space. However, some operational issues have been lingering for a long time and weighed on its market performance.

On the financial growth and deleveraging front, Suncor Energy has done well in the last few quarters. However, outages at its Commerce City refinery and lower productivity at its Fort Hills project might continue to hamper it in the short to medium term.

SU stock increased its dividend by 80% last year and currently offers a juicy yield of about 5%. Management undertook aggressive share buybacks last year and will likely keep at it in 2023.

Despite some positives, Suncor might see limited upside from here as some of the above-mentioned operational issues deter its free cash flow growth. Peer Canadian energy bigwigs look relatively better placed and continue to outperform Suncor Energy in 2023.

Here are two of them.

#1 Canadian Natural Resources

Canada's largest energy producer stock by market cap, **Canadian Natural Resources** (TSX:CNQ) returned 45% last year, including dividends. Thanks to higher oil and gas prices, CNQ reported free cash flows of $14.1 billion in the last 12 months. That represents handsome growth of 40% year over year.

The company is expected to witness solid free cash flow growth this year as well. Interestingly, a major portion of cash went to debt repayments last year. However, this year, a large chunk of that free cash is expected to go towards shareholder returns. As a result, CNQ might see aggressive share buybacks and dividend growth in 2023.

The CNQ dividend currently yields 4.4% and has raised shareholder payouts for the last 23 consecutive years.

Canadian Natural's relatively better balance sheet, scale, and free cash flow growth will likely drive considerable shareholder value in 2023.

#2 Tourmaline Oil

Tourmaline Oil (TSX:TOU) is Canada's largest natural gas producer. It has been on a dividend spree and paid an $8 per share dividend last year. The special dividends will likely continue this year, with stellar free cash flow growth continuing and much less of it going towards deleveraging.

Tourmaline produces gas, oil, and condensate in Canada but sells a majority of it in American markets. In November and December 2022, Canada's largest natural gas producer received a high rate for its gas production in California amid extremely cold weather. Plus, it differentiated itself from peers that largely received discounted AECO prices for their gas.

TOU stock is currently trading at four times its earnings and five times cash flows. It looks a tad richly valued on a cash flow basis but might continue to trade strong. The company's low-cost production and diversified markets will likely drive its handsome free cash flow growth in 2023, creating meaningful shareholder value.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CNQ (Canadian Natural Resources Limited)
2. TSX:SU (Suncor Energy Inc.)
3. TSX:TOU (Tourmaline Oil Corp.)

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