Better Energy Buy in 2023: Pipelines or Producers?

Description

TSX's energy sector (+0.59%) is back in positive territory after a weak start to 2023. Most market analysts predict the sector will be the top performer again this year, like in the past two years. Their forecasts have been strengthened lately by the rally in oil prices in anticipation of the reopening of China's economy.

Ed Moya, a senior market analyst at The Americas, said, "The good outweighs the bad with the outlook for China's economic future." Other encouraging news is that bullish sentiment is building from the World Economic Summit, and OPEC forecasts that major economies may even avoid recession.

Because of these exciting developments, expect investors to gravitate towards blue-chip stocks **Enbridge** (TSX:ENB) and **Canadian Natural Resources** (TSX:CNQ). But if you invest today, should you choose pipelines or producers?

Utility-like business model

Enbridge is a $112.6 billion multinational pipeline and energy infrastructure company operating the longest pipeline system in North America. It's also the world's largest oil export pipeline. Management says its industry-leading low-risk commercial and financial profile provides predictable cash flows in all market cycles.

Moreover, Enbridge derives its cash flows from four blue-chip franchises, all of which have high visibility to attractive organic growth opportunities. From 2022 to 2024, the annual organic growth potentials of the Gas Transmission and Gas Distribution segments are $2 billion and $1.5 billion, respectively. The Liquids Pipeline and Renewable Power businesses could grow by $1 billion yearly.

Al Monaco, Enbridge's President and CEO, said management's execution of its strategic priorities in 2022 provides a solid foundation for this year and beyond. He also expects the $3.8 billion of assets coming into service in 2023 to contribute significantly to business growth.

The 3% dividend increase in Q3 2022 marks 28 consecutive annual increases since 1995. If you invest in Enbridge today, the share price is $55.62 (+5.1%), while the dividend yield is 6.35%

Big League

Canadian Natural Resources achieved a milestone last year. On April 20, 2022, it became the first TSX-listed oil and gas producer to surpass $100 billion in market value. An analyst at Mawer Investment, Mark Rutherford, said you could compare Canadian Natural Resources to the big global players like **Exxon Mobil**, **Chevron**, and **Conoco Phillips**.

CNQ also rose to a new all-time high of $86.42 on the same day. As of this writing, the market cap, share price, and dividend yield are $64.6 billion, $78.63, and 4.47%, respectively. The 2,016.99% total return in 20 years represents a 16.5% compound annual growth rate (CAGR).

In the nine months ended September 30, 2022, revenue and net earnings increased 56.4% and 83.6% year over year to $32.6 billion and $9.4 billion, respectively.

Management commits to maintaining a strong balance sheet, adequate available liquidity, and a flexible capital structure for years to come. CNQ is pursuing two major exploration growth plays in the Montney (liquid-rich natural gas) and Deep Basin (light crude oil).

Powerhouses

Enbridge and Canadian Natural Resources deliver market-beating returns and pay generous dividends. You can own one or both of these powerhouses in North America’s energy industry.

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