TFSA Investors: The Best TSX Energy Stocks for Fast-Growing Passive Income

Description

After a stellar year in 2022, energy stocks trading on the TSX remain popular among Canadian investors. Equipped with strong balance sheets and sustainable payout rations, several TSX energy stocks also pay shareholders attractive dividends.

Here, I have identified the two best energy stocks Canadian investors can buy for fast-growing passive income in 2023.

Enbridge

Among the largest companies listed on the TSX, **Enbridge** (TSX:ENB) currently offers investors a dividend yield of 6.3%. A majority of Enbridge's cash flows are regulated and backed by long-term contracts, which are indexed to inflation. It enjoys a wide economic moat, as Enbridge transports 30% of all produced in North America.

Enbridge has a wide base of cash-generating assets, allowing it to maintain dividend payouts across business cycles. It has increased dividends by 10% annually in the last two decades and now has a payout ratio of 65%.

Enbridge expects to increase cash flow per share between 5% and 7% in the next two years, supporting further dividend hikes. The energy giant has already increased dividends for 28 consecutive years.

Enbridge has a backlog of capital expansion projects which should increase cash flows over time. It is also expanding its presence in the renewable energy space, which currently accounts for 4% of total earnings.

Canadian Natural Resources

One of the top-performing stocks trading on the TSX, **Canadian Natural Resources** (TSX:CNQ), offers shareholders a tasty dividend yield of 4.2%. In the first nine months of 2022, the energy heavyweight spent $4.9 billion in capital expenditures — an increase of $1.4 billion or 41% year over year. It also returned the same amount to shareholders via quarterly and special dividends — an increase of 127% year over year.

Canadian Natural Resources believes its top-tier asset base provides the company with unique advantages, allowing it to generate robust cash flows and shareholder returns. In the third quarter, its adjusted funds flow stood at $5.2 billion, while free cash flow after dividends and capital expenditures stood at $1.7 billion.

CNQ's board of directors approved a 13% hike in quarterly dividends, which now stands at $0.85 per share. In the last 22 years, its dividends have increased at an annual rate of 21.5%, making it one of the best dividend-growth stocks in the world.

CNQ has a long-life low decline asset base, allowing it to report consistent cash flows, even if oil prices pull back significantly. While several oil producers cut or suspended dividend payments at the onset of COVID-19, Canadian Natural Resources could easily raise these payouts, showcasing the resiliency of its business model.

In the last year, higher commodity prices have allowed Canadian Natural Resources to reduce net debt, providing the company with the required financial flexibility to further strengthen its balance sheet.

In the third quarter, CNQ reduced net debt by $680 million, while it reduced long-term debt by $4.6 billion in the last 12 months. CNQ explained, "Our free cash flow allocation policy is unique and balanced, providing significant returns to shareholders through dividends and share repurchases while continuing to strengthen the balance sheet."

CNQ's net debt is now below $15 billion, and the company aims to allocate 50% of free cash flow toward share purchases and 50% to the balance sheet.

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2. TSX:ENB (Enbridge Inc.)

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Date
2025/08/23
Date Created
2023/01/24
Author
araghunath