Are These 2022 TSX Energy Stars Still Buys in 2023?

Description

Last year was bullish for energy stocks, as Russia's surprise attack on Ukraine set the global energy crisis in motion. Energy is a global commodity, whose price is governed by market forces of demand and supply. The sanctions on Russian oil left Europe with insufficient oil and gas reserves. Europe reached open markets to fill its reserves, pushing oil prices above $100 to as much as $125.

Suncor Energy (TSX:SU) got to sell the oil it produces for US$28 a barrel at US$80-US$120 a barrel, bringing windfall gains for the oil producer. Are the 2022 TSX energy stars still buys in 2023? Let's find out.

Do energy stocks have potential to grow in 2023?

Oil-producing companies like Suncor used the windfall gains from 2022 to repay debt, increase dividends, and optimize production. The company did not spend much capital on capacity expansion or new exploration. That is because OPEC (Organization of the Petroleum Exporting Countries) can easily beat Suncor in terms of production costs. The median cost of producing oil in Saudi Arabia and Kuwait is $5.40 a barrel, with the highest cost being US$10.

The oil price reached its peak of US$125 in June 2022, and since then it has been hovering between US$80 and US$110. Industry experts expect oil prices to remain in this range throughout 2023, as a recessionary environment slows demand in Europe and North America. It could put downward pressure on the oil price. However, the United States refilling its emergency Strategic Petroleum Reserve (SPR) could push the oil price.

If oil falls below US$60 a barrel, Suncor's windfall gains could vanish. And if oil falls below US$35, it could post losses. This cyclicality of oil limits Suncor stock's upside to $50 per share. The stock is currently trading around $45, which is a good exit price if you bought the stock on or before January 2022 at below $35 per share.

If you invested $2,000 in Suncor in mid-January 2022, you own 57 shares, which are now worth $2,525 and have paid you $119 in dividends. A $640 profit on a $2,000 investment is a good deal.

Two energy stocks to buy in 2023

If you invested in Suncor for dividends, there are better energy stocks.

Enbridge stock

Enbridge (TSX:ENB) has connected Canada and the United States with its oil and gas pipelines. Thanks to this infrastructure, Canada exports 99% of its oil output to America. Unlike Suncor, Enbridge is relatively less affected by oil's price, as it earns revenue on the volumes it transits through its pipelines. Moreover, it has diversified into liquefied natural gas (LNG).

With Russian gas out of the picture, Canada and America are vying to become the key exporter of LNG to Europe. Enbridge expects to get a 30% market share of this export opportunity. With a 68-year history of paying regular dividends without any cuts, Enbridge has proved its resilience in the 1991 recession, the 2007 financial crisis, the 2014 oil crisis, and the 2020 pandemic. The company can withstand a 2023 recession no matter how deep it is and sustain its dividend per share at $3.55.

When new LNG pipelines come online, you could see a stronger dividend-growth rate (current growth of 3%).

TransAlta Renewables stock

While you can buy Enbridge for dividends, you can buy **TransAlta Renewables** (TSX:RNW) for a 30-40% capital appreciation. TransAlta Renewables stock fell 25% in December 2022 when the company released a bleak outlook for 2023 over concerns about keeping up with the competitive environment amid rising interest expenses.

TransAlta Renewables acquires and operates wind, solar, hydro, and natural gas facilities in Canada, the United States, and Australia. When financing cost increases, the accretive profits from a project reduce. Hence, the company stalled any new acquisitions amid high-interest expenses. It will focus on existing projects and direct all the cash flow towards sustaining its $0.94 dividend per share.

The year 2023 might be tough for TransAlta Renewables, but the stock could grow when financing costs ease and governments worldwide invest in green energy. A recovery rally could bring the stock to its average trading price of $17 — 42% upside from its current trading price of about $12.

CATEGORY

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2. TSX:ENB (Enbridge Inc.)
3. TSX:RNW (TransAlta Renewables)
4. TSX:SU (Suncor Energy Inc.)

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