Canadian Energy Stocks: Here's Your Best Bet in February 2023

Description

The easing of COVID-led restrictions, disruptions from Russia's invasion of Ukraine, underinvestment in new supply, and pickup in economic activities led to a solid recovery in oil and natural gas prices, supporting the financials and shares of energy companies.

Thanks to their strong financials, energy companies enhanced shareholders' returns through accelerated share repurchases and dividend hikes. Also, these companies strengthened their balance sheet through debt reductions.

Amid a favourable operating environment, energy stocks outperformed the broader markets in 2022. However, concerns about the slowdown in the global economy could hurt demand in 2023. Nevertheless, investors should note that OPEC+ (Organization of the Petroleum Exporting Countries) nations focus on stabilizing the oil market through production cuts could support average realized prices and, in turn, drive the financials and stock prices of oil companies.

Enbridge (TSX:ENB) appears as the best bet within the energy sector. It owns energy infrastructure assets and is integral to the energy value chain. Let's look at factors that make Enbridge a solid investment in energy space.

Momentum in business to sustain

Through its Liquids Pipelines segment, Enbridge transports nearly 30% of the crude oil produced in North America to the refiners and markets. Furthermore, through its Gas Transmission and Midstream operations, it transports approximately 20% of the natural gas that is consumed in the United States. In addition, Enbridge has metered connections and supplies energy to Ontario residents through its Gas Distribution and Storage unit.

Given the importance of Enbridge's role in the transportation of hydrocarbons, the utilization of its assets is likely to remain high, which will drive its financials and stock price. Moreover, it has over 40 sources of revenue. Additionally, its assets are supported by long-term contracts, regulated cost-of-service tolling frameworks, low-risk commercial arrangements, and power-purchase agreements that make its cash flows highly predictable and reliable.

Moreover, the majority of its EBITDA (earnings before interest, taxes, depreciation, and amortization) has protection against inflation, and about 90% of its customers are investment grade.

It's also worth highlighting that Enbridge follows a two-pronged growth strategy. It is ramping up investments in low-carbon opportunities and continues to grow its conventional assets base, which positions it well to capitalize on energy demand.

Overall, Enbridge is poised to deliver strong revenues and earnings on the back of the momentum in its business. Meanwhile, benefits from new assets placed into service will accelerate its growth.

Enbridge to enhance shareholders' returns

Thanks to its predictable cash flows and resilient business, this large-cap stock has consistently enhanced its shareholders' returns. It has paid dividend for 68 years. Meanwhile, regardless of the market conditions, its dividend has grown at a CAGR (compound annual growth rate) of 10% in the last 28 years.

Enbridge's uninterrupted dividend growth and a high yield of 6.57% (based on the closing price of $53.98 on February 2) make it a solid income stock for investors.

Looking ahead, its resilient cash flows, ability to generate solid EBITDA, and a sustainable payout ratio of 60-70% of distributable cash flows indicate Enbridge could continue to enhance its shareholders' value through dividend growth.

Bottom line

Overall, Enbridge's solid business model, cash flow growth, strong balance sheet, and consistent dividend increases make it an attractive long-term stock. Meanwhile, its next 12-month enterprise value-to-EBITDA multiple of 12.5 is in line with its historical average and well within investors' reach.

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