2 Top TSX Energy Stocks to Buy in February 2023

Description

Energy stocks on the TSX are down from their 12-month highs, and some now trade at prices that appear undervalued while offering attractive dividend yields.

TC Energy

TC Energy (TSX:TRP) trades for close to $56 per share compared to $74 last June.

The steep pullback occurred due to rising costs on a major natural gas pipeline. TC Energy's Coastal GasLink project will bring natural gas from producers in northeastern British Columbia to a new liquified natural gas (LNG) facility on the B.C. coast. A wave of problems in recent years has driven up costs and delayed construction. Labour shortages, contractor disputes, bad weather, protests, permitting delays, and soaring material costs have all combined to drive up the price of the project.

In the latest update, TC Energy said the final bill to get the pipeline built will be about $14.5 billion. This is up from the initial estimate of $6.2 billion when the company announced the go-ahead for project in the fall of 2018. A further $1.2 billion could be added to the cost if construction drags out through 2024. The pipeline is already 83% complete.

It has been a rough ride for TRP investors, but most of the bad news should be out on the project. TC Energy is working to monetize $5 billion in non-core assets to help fund the overall capital program. The company has $34 billion in projects on the go through 2026.

Management remains committed to boost the dividend by 3-5% per year. As such, the pullback might be overdone, and stock looks attractive right now with a 6.4% dividend yield.

Suncor

Suncor (TSX:SU) endured a challenging 2022. The company struggled with ongoing safety issues and came under fire from an activist investor. The board brought in a new chief executive officer to set a new path, and Suncor started selling non-core assets.

A comprehensive review of the business lines ended in a decision to keep the retail division. Suncor considered selling the group that includes roughly 1,500 Petro-Canada outlets. The company felt that investors would get a better return by maintaining the integrated structure of the firm, as domestic and international fuel demand rises. Suncor is best known as an oil producer, but the company also has refineries and retail operations.

Suncor used its excess cash to reduce debt and buy back stock in the past two years. The balance sheet is now in better shape, and investors should see additional dividend gains. Suncor initially cut the payout by 55% at the start of the pandemic but has since reversed the move and even increased the payout to a new high.

The stock trades for close to $44 per share at the time of writing. This is pretty much where it sat three years ago compared to big gains for its peers and is down from $54 last June. The price of West Texas Intermediate oil currently sits near US$74 per barrel. Oil bulls expect a return to US$100 at some point this year, as China reopens its economy, and global demand for fuel continues to recover.

Investors who buy Suncor stock at the current level can get a 4.7% dividend yield.

The bottom line on top energy stocks to buy now

Ongoing volatility should be expected, but TC Energy and Suncor look cheap today for contrarian investors seeking high dividend yields and a shot at decent potential capital gains. If you have some cash to put to work, these stocks deserve to be on your radar.

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