2 Energy Stocks Packed With Potential in Today's Market

Description

Energy stocks were tough to top last year, as many Canadian oil and gas plays defied the American bear market. Now that markets have begun to find their footing, energy plays seem like a play to take profits in. The broader basket of energy plays cooled into the second half of the year. Indeed, recessions typically don't bode well for commodity prices.

In any case, energy stocks still boast impressive fundamentals in today's rocky market environment. With a recession likely partially factored in and impressive dividends that are likely to continue to grow from here, I view energy stocks as full of potential and ripe for buying.

Without further ado, consider shares of oil production kingpin **Canadian Natural Resources** (TSX:CNQ) and underrated midstream firm **TC Energy** (TSX:TRP).

Canadian Natural Resources

Canadian Natural Resources stock started the first half of last year with a historic surge. Though shares have stalled in the second half, I still view the oil and gas behemoth as one of the best picks in the Canadian energy space. Oil prices, like CNQ stock, have run out of steam. With a recession likely on the horizon, there's also a lot of modest expectation baked into the stock.

There's a haze of uncertainty up ahead, and though the easy gains have been made in the stock, it's hard not to be enticed as a value investor by the 7.75 times trailing price-to-earnings (P/E) multiple. Sure, momentum from last year is unlikely to continue. However, Canadian Natural still stands to rake in enough cash flow to continue spoiling investors.

We've seen many big-oil stocks continuing to deliver in recent months. I think more of the same could be in the cards for Canada's top energy giant. The 4.3% dividend yield is bountiful and should help smoothen the choppy ride (2.01 beta, which implies more volatility than the averages) to be expected from any energy producer.

TC Energy

TC Energy is a diversified pipeline that may not get as much limelight as its higher-yielding peers. Undoubtedly, the pipelines are utility-like in nature in environments where oil can hold its own. Even with a recession knocking, I still view TC as an underrated cash cow that can continue to deliver for its long-term shareholders. At 17.7 times trailing price to earnings, TC is a heck of a lot cheaper than some of the other midstream operators with stocks that yield north of 6%.

Of course, TC faces headwinds as it spends to fuel future growth. The company expects its Coastal GasLink pipeline to cost $14.5 billion, up around 30% from prior estimates. Indeed, it's not just higher rates to blame for TC's recent woes. In any case, I think TC is a standout value, as shares flirt with 52-week highs of around $55 per share.

The bottom line for energy investors

There's still a lot of value in the energy sector, even for those who believe they're "late" to the party. Shares of CNQ and TRP are fresh off pullbacks and could be in a spot to hit new highs this year if the much-anticipated, mild recession doesn't take as big a bite out of energy demand, as some bears think.

Even if oil slips from here, you'll collect very generous payouts from the two Canadian energy plays that continue to trade at very reasonable multiples.

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