



## Top Canadian Energy Stocks of 2023

### Description

The energy industry often experiences large tailwinds during times of inflation thanks to rising commodity prices. As energy prices soar, energy companies can enjoy higher revenues, better margins, and improved earnings, which can translate to a higher valuation and share price.

Let's break down what energy stocks are and if they're a good choice for Canadian investors.

### What are energy stocks?

Energy stocks are those companies involved in the production, processing, and sale of energy products, such as fossil fuels (natural gas, crude oil, refined petroleum products) and [renewable sources of energy](#) (wind, hydro, solar). Also included are companies that produce energy machinery and equipment, and those that provide support services like logistics and staffing.

As a commodity, the price of energy is elastic, meaning that it is heavily influenced by supply and demand, which can be [cyclical](#). As a result, energy companies have a higher beta, a measure of volatility compared to the overall market. Other risks to note include political/regulatory risk for mining sites and geological/environmental risks from operations.

### Top energy stocks in Canada

Here are some of the top Canadian energy stocks on the [Toronto Stock Exchange \(TSX\)](#):

Company	Description
Enbridge Inc. ( <a href="#">TSX:ENB</a> )	Enbridge is a midstream oil & gas company with a pipeline and utility network comprising oil sands and natural gas operations.
Canadian Natural Resources ( <a href="#">TSX:CNQ</a> )	Canadian Natural Resources is one the largest oil and natural gas producers in Western Canada.

TC Energy ([TSX:TRP](#))

TC Energy is an energy infrastructure company with pipeline and power generation assets across Canada, the U.S., and Mexico.

## Enbridge Inc.

Enbridge transports hydrocarbon assets throughout Canada and the U.S. via an extensive network of pipelines, including the Canadian Mainline system, regional oil sands pipelines, and [natural gas pipelines](#). In addition, Enbridge owns and operates regulated natural gas utilities and distribution networks, along with a small renewable energy portfolio that manages offshore and onshore wind, solar, and geothermal projects.

Enbridge also offers energy services, which include marketing, commodity trading, and logistical services to refiners, producers, and other customers. Its natural gas utilities provide heating and electricity for residential, commercial, and industrial customers in Ontario. Enbridge is well-known for its consistently high dividend payout, which has a five-year average yield of 6.41% as of December 2022.

## Canadian Natural Resources

Canadian Natural Resources explores, develops, produces, and sells a variety of hydrocarbon products, including [crude oil](#), natural gas, and natural gas liquids. Its crude oil lineup includes synthetic crude oil, light and medium crude oil, bitumen (thermal oil), primary heavy crude oil, and Pelican Lake heavy crude oil. The company's assets include two crude oil pipelines and a 50% interest in a power co-generation plant located in Primrose, Alberta.

As of 2021, the company had total proven crude oil, bitumen, and natural gas reserves of over 10 million barrels, primarily located in Western Canada. Like Enbridge, Canadian Natural Resources has historically paid a strong dividend, with a five-year average yield of 4.01% as of December 2022. The company is also a dividend aristocrat, with a 22-year streak of consecutive dividend increases and payments.

## TC Energy

TC Energy operates via five segments: Canadian natural gas pipelines, U.S. natural gas pipelines, Mexican natural gas pipelines, liquids pipelines, and power & storage. The company operates a 93,300 km network of pipelines, which transports natural gas from supply basins to distribution companies, power generation plants, industrial facilities, interconnecting pipelines, and LNG export terminals, along with regulated natural gas storage facilities with a total capacity of 535 billion cubic feet.

TC Energy also operates a 4,900 km long liquids pipeline system that connects crude oil supplies in Alberta with refiners in Illinois, Oklahoma, Texas, and the U.S. Gulf Coast. The company holds ownership interests in seven power generation facilities across Alberta, Ontario, Québec, and New Brunswick capable of generating 4,300 megawatts, along with 118 billion cubic feet of non-regulated natural gas storage in Alberta.

## Investing in Canadian energy stocks

The Canadian energy sector is the second-largest constituent in the TSX after financial services. Currently, energy sector stocks account for 19% of the S&P/TSX 60 Index by market capitalization and many [large-cap](#) energy stocks account for the index's top holdings. Globally, Canada is the world's third-largest exporter of energy and top producer of natural gas.

Companies involved in the Canadian energy sector can be classified broadly as either:

1. **Upstream:** Deal primarily with exploration and initial production of energy.
2. **Midstream:** Deal primarily with transportation of energy.
3. **Downstream:** Deal primarily with refining and distribution of energy.

Ancillary sub-industries in the energy sector include renewables and energy support equipment and services. However, “pure-play” energy sector companies are those that primarily deal with the exploration, production, transportation, refining, or distribution of energy.

Because the Canadian energy sector is affected by so many variables, investors should also assess the following external factors:

- **How is worldwide inflation trending?** Energy stocks tend to rally when inflation surges, which is what happened in 2022.
- **Have there been any conflicts involving countries that are critical importers/exporters of energy?** The recent Russian invasion of Ukraine is a good example.
- **Have commodity prices recently been subjected to supply and demand shocks?** The current European energy crisis is an example of this.
- **Is there any pending or anticipated environmental legislation that could impact the sector, whether positively or negatively?** The recent U.S. Inflation Reduction Act was a positive catalyst for renewable energy stocks.

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## Are Canadian energy stocks right for you?

Investing in Canadian energy stocks is a bit higher risk than other industries, as they tend to be [more volatile compared to the overall market](#). Because energy stocks form a substantial portion of the TSX already, investors should be aware to not over-weight them if they already hold Canadian index funds.

Energy stocks also tend to be a good defensive holding against high inflation. One of the main drivers of inflation is a rise in the price of energy commodities, especially crude oil and natural gas. When prices rise, companies that produce, process, and sell energy can earn stronger revenues, as the value of stored inventory on their balance sheets improves.

Overall, energy stocks can be a good investment as long as investors evaluate the external factors that affect them, as well as the investors' personal financial situation and appetite for risk.

## TICKERS GLOBAL

1. TSX:CNQ (Canadian Natural Resources Limited)
2. TSX:ENB (Enbridge Inc.)
3. TSX:TRP (TC Energy Corporation)

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