2 High-Yielding Energy Stocks to Buy as a Recession Approaches

Description

Energy stocks have been the best–performing sector on the **TSX Index** in 2022. Yet many energy stocks have experienced a pullback in the past several months. Inflation continues to soar, and interest rates are fast rising.

Many economists believe the globe will hit a recession very soon. Subsequently, the market is anticipating demand for oil and natural gas could decline. Oil has fallen from as much as US$120 per barrel to US$95 per barrel, where it trades today.

Reasons to still like Canadian energy stocks

Energy stocks have a high correlation to the price of oil. Yet there is still good reason to like some of these oil stocks. New oil supply has massively slowed since the pandemic. While prices have declined, they are still high compared to the past several years. The big OPEC player are troubled to ramp production, and the war in Ukraine certainly doesn't help.

Energy companies can still make a lot of money, even if prices were to fall into the US$80 range. Since the pandemic, many companies have focused on lowering costs and streamlining operations. They have also focused on returning cash to shareholders.

Energy stocks have plenty of levers for returns

Rather than reinvesting in more production, energy companies are giving back significant returns in the form of share buybacks, dividend increases, and special dividends. If you are looking to profit from this trend, there are plenty of energy stocks with attractive yields. Here are two to consider buying, despite concerns over a recession.

Canadian Natural Resources

Despite being an energy company, many consider **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) as one of the best-run companies in Canada. There are not many companies (or energy companies, nonetheless) that can boast an annual dividend-growth rate over 20% for the past 15 years. Well, CNQ can.

CNQ is one of Canada's largest producers of heavy oil and natural gas. It operates its oil sands projects with factory-like efficiency and at an extreme low cost. Any dollar earned above US$30 per barrel translates in spare cash to the company. Given where prices are today, this company is generating a ton of excess cash.

In fact, last quarter alone, CNQ generated $3.4 billion of free cash after paying its dividend. This year, it has already returned $3.1 billion to shareholders. It just increased its quarterly dividend by 28% to $0.75 per share.

Today, this energy stock earns an attractive 4.6% dividend yield. I suspect a very strong second quarter for this business, and chances are high that further dividend returns will be in order this year.

Pembina Pipeline

If you don't like the volatility of owning a price-taking commodity stock but want exposure to energy and an attractive dividend, **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) is an interesting idea.

It operates a mixed assortment of pipelines, midstream, storage, export, and processing facilities. It is positioned as one-stop transportation and processing shop for many western Canadian energy producers.

Over 90% of its income is derived from contracted assets. Consequently, it can earn reliable cash flows regardless of the price in oil. When oil crashed in 2020, Pembina sustained and paid its monthly dividend. When oil prices are high, it earns an elevated spread on processed products it resells. It also benefits from developing new projects and services for its counterparties.

Today, this energy stock earns a 5.44% dividend. For defensive income and some modest growth in the coming years, Pembina is quality energy stock to buy and hold through a recession.

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