Which Large Oil Producer Belongs in Your Portfolio?

Description

Canada is home to some of the world's largest energy companies, but which one(s) belongs in your portfolio?

The following table compares Canada's largest oil producers: **Suncor** (TSX: SU)(NYSE: SU), **Canadian Natural Resources** (TSX: CNQ)(NYSE: CNQ), and **Cenovus** (TSX: CVE)(NYSE: CVE).

One statistic worth paying special attention to is enterprise value to reserves. It measures how expensive a company is relative to the present value (using a 10% discount rate) of its recoverable barrels in the ground. A higher ratio equals a more expensive stock.

Company	Market Capitalization	EV/Reserves	Dividend Yield
Suncor	$54.3 billion	1.44x	2.5%
Canadian Natural Resources	$46.6 billion	0.91x	2.1%
Cenovus Energy	$23.1 billion	1.16x	3.5%

Suncor: The most expensive

As can be expected, Suncor is the most expensive of the three. The company has extensive upgrading and downstream operations, especially after its $17 billion purchase of Petro Canada in 2009. The stock has also been on a nice run recently, gaining 20% in the last year. A $500 million investment by Warren Buffett's **Berkshire Hathaway** last August surely didn't hurt.

One concern that investors should have is the company's track record. Over the last 10 years, Suncor's shareholders have gained 8.65% per year, which sounds adequate at first. But this has come during a time when energy prices have skyrocketed on the back of increased demand from China. The 8.65% annual return is actually well below most of its peers.

Canadian Natural Resources: The cheapest

CNRL is the cheapest of the three companies listed above, trading for less than the value of its reserves. This is surprising, given the company's track record under chairman Murray Edwards. Mr. Edwards is known as a very shrewd capital allocator, and he has done wonders for the company. Shareholders have gained 17.5% per year over the last 10 years, more than double the annual return of Suncor's shareholders. So why the discount?

One reason could be that 30% of CNRL's production is natural gas, something that investors generally don't want to bet on. Another reason could be the company's low dividend yield. But with Mr. Edwards at the helm, CNRL investors should prefer that he reinvest the company's cash flow rather than pay it out to shareholders.

Cenovus: An interesting option

Cenovus's shares have certainly struggled over the last year, decreasing 2.7%. But that may have created an attractive entry point. The company has some of the best oil sands assets in the country at Christina Lake and Foster Creek. And partly due to the share price slump, the company's dividend yield is now a respectable 3.5%.

Foolish bottom line

So which oil sands stock should you buy? Well, it depends what kind of bet you want to make.

Investors looking for a well-established, stable, fully-integrated company should go with Suncor. Those looking for a well-run company, or who want to bet on Keystone being approved, and are willing to forego a large dividend, should go with CNRL. Those looking to take advantage of some price weakness would do well going with Cenovus — as a bonus the shares come with a nice dividend.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:CVE (Cenovus Energy Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:CVE (Cenovus Energy Inc.)
6. TSX:SU (Suncor Energy Inc.)

Category

1. Investing

Date
2025/07/27
Date Created
2014/03/26
Author
bensinclair