Suncor vs. Canadian Natural Resources: Which Should You Buy?

Description

They're Canada's two largest energy companies by market capitalization. Both have had impressive years, buoyed mainly by stronger prices. But which one belongs in your portfolio? Below we take a look at **Suncor** (TSX: SU)(NYSE: SU) and **Canadian Natural Resources** (TSX: CNQ)(NYSE: CNQ).

1. Suncor

It's been a great year for Suncor and its shareholders — over the past 12 months, its shares have returned over 48%. Although an investment from Warren Buffett didn't hurt, the main cause of this rise has been an increase in prices.

Suncor's most recent financial report tells the story perfectly. In the first quarter of 2014, the average Western Canadian Select price was U.S.$75.55, a 21% increase over the previous year. As a result, Suncor was able to increase its operating income by 31% despite declines in production and increases in expenses.

Looking ahead, Suncor's fate will be most reliant upon what happens to the transportation bottlenecks plaguing Alberta's oil sands. Although they have loosened dramatically in the last two years — hence the 21% increase in price for heavy oil — there is still more room to run. Of course, the continued progress of crude by rail, as well as the fate of the Keystone XL pipeline, will be the major determining factors.

However, Suncor is not as reliant upon heavy oil prices as some of its peers. This is because refining and marketing, such as its Petro Canada gas stations, account for nearly half its operating earnings. If you're scared of President Obama's decision on Keystone, Suncor is a less risky option.

2. Canadian Natural Resources

It's also been a great year for Canada's second-largest energy company, Canadian Natural Resources. Over the past 12 months, its shares have returned 61% and are approaching their all-time high.

Like Suncor, CNRL has benefited from increased prices for heavy oil. In fact, CNRL has done so even more, since it does not have any refining or marketing assets like gas stations. Thus, the entire company benefits from higher energy prices.

The company was also able to take advantage of a depressed energy market, which allowed it to buy assets at bargain prices. Probably the best example of this was its $3.1 billion purchase of some **Devon Energy** (NYSE: DVN) natural gas assets.

The good news is that despite CNRL's share price surge, the company is still reasonably priced, trading at about the value of its existing reserves. Any value from its additional resources, strong capital allocation, or continued strong energy prices comes as a bonus. At this point, its shares are probably more worth buying than Suncor's.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:DVN (Devon Energy Corporation)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:SU (Suncor Energy Inc.)

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