



Why You Should Buy Canadian Natural Resources Limited Instead of Suncor Energy Inc.

Description

Suncor Energy Inc. ([TSX: SU](#))([NYSE: SU](#)) is Canada's largest energy company, and as a result is a large holding in many Canadian equity portfolios. And the past year has been a bright one for the company – over the past 12 months, its shares have returned roughly 30%.

So Suncor is a very popular stock these days. But there's one energy name you should consider holding instead: **Canadian Natural Resources Limited** ([TSX: CNQ](#))([NYSE: CNQ](#)). Below we take a look at three reasons why.

1. Differences in track record

This is easily the biggest reason why you should choose CNRL over Suncor. Over the past 15 years, no large oil producer in Canada has a better track record than CNRL. The keys to the company's success have been smart capital allocation and disciplined cost control.

For example, the past year has not been an easy one for energy producers (although the environment is better now). As a result, many companies have been unloading assets, right into a buyer's market. But CNRL has been buying assets instead, the most notable example coming in February, when it paid \$3.1 billion for some natural gas assets sold by **Devon Energy Corp.**

Over time, CNRL's performance has shown up in its stock price. In the last 15 years, its shares have returned 17.3% per year, compared to 12.6% annually for Suncor. And while such returns will be hard to come by in the future, CNRL's management team looks like the horse you should be betting on.

2. A different bet

Suncor and CNRL may seem like similar energy companies, but in reality they make their money from different things. On the one hand, CNRL is quite focused, with all of its earnings coming from the sale of oil and gas. Just over 70% of production last year was oil (30% gas), and over 90% of total production came from North America.

Suncor has a lot more going on, with businesses in refining, marketing, energy trading, renewable energy, and various international assets. So if you're looking to make a bet on the future of Canadian energy, CNRL is a cleaner bet. Also, you could argue that Suncor's management has more to focus on, while CNRL's management can concentrate on what it does best.

3. Differences in economics

This last point is very important, because both companies are spending plenty on capital expenditures – last year they combined to spend nearly \$14 billion.

To illustrate the difference in economics, let's look at their oil sands mining initiatives. CNRL is spending \$2.5 billion to increase its production at Horizon by 140,000 barrels per day – less than \$20,000 in investment per flowing barrel.

Meanwhile, Suncor is proceeding with its new Fort Hills oil sands project, which will eventually produce 180,000 barrels per day. But the price tag is a staggering \$13.5 billion, or \$75,000 per flowing barrel.

With these kinds of differences in economics, CNRL will be able to grow production more efficiently, and more quickly too. Over the long term, that is good news for its shareholders.

CATEGORY

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