



## Suncor Energy Inc. vs. Canadian Oil Sands Ltd.: Which Is the Best Investment?

### Description

The energy sector is full of bruised and battered stocks these days and investors who sat on the sidelines during this year's big rally finally have a chance to put some money to work at reasonable valuations.

The trick right now is to decide where to invest. Should you take a run at the big dividend payers or go for something a bit more conservative?

Let's take a look at **Suncor Energy Inc.** ([TSX: SU](#))([NYSE: SU](#)), and **Canadian Oil Sands Ltd.** (TSX: COS) to see if one is a better choice right now.

#### Suncor Energy Inc.

Suncor is the largest integrated energy company in Canada. Besides operating its world-class oil sands operations, Suncor also owns four refineries and a large network of retail stores. The vertically integrated model gives the company earnings diversification all along the value chain.

Suncor's oil sands assets are massive. The company controls nearly 7 billion barrels of reserves and another 23.5 billion barrels of contingent resources. The estimated production life of the assets is a staggering 80 years.

The four refineries have a combined processing capacity of 460,000 barrels of crude oil per day. The facilities pump out a variety of products including light oil, gasoline, feedstock for lubricants, diesel fuel, and asphalt.

The retail division consists of Suncor's 1,500 Petro-Canada gas stations and wholesale stores. The lubricants division produces and markets more than 350 products that are distributed in 70 countries.

When oil prices are volatile, the vertically integrated structure helps protect investors from revenue shocks. Cash flow is more predictable and dividend payments are more secure.

Suncor is the champion of getting the highest price possible for its production. By using railways,

pipelines, and even ships, Suncor managed to get global-based pricing on nearly 100% of its crude oil in the second quarter.

Suncor currently trades at 11 times forward earnings. The company pays a dividend of \$1.12 per share that yields about 2.9%.

### **Canadian Oil Sands Ltd.**

As a pure play on light sweet crude oil, Canadian Oil Sands offers investors the chance to benefit from production at the Syncrude mining project. The company owns nearly 37% of the facility.

It has been a tough year for Canadian Oil Sands. In the second quarter, its year-over-year net income plummeted by 20% as shutdowns at two of its cokers caused the company to miss output forecasts. One shutdown was a planned maintenance operation. The other was unexpected.

Both cokers are operating at full capacity again and Q3 earnings should come in much better than the Q2 report.

Canadian Oil Sands is also nearing the completion of two capital projects. The Mildred Lake Mine train replacement and the Centrifuge Tailings Management project have tied up a lot of cash flow but the work at both facilities should be finished by early 2015.

Canadian Oil Sands trades at 10 times forward earnings and pays a dividend of \$1.40 that yields about 7.8%.

### **Which should you buy?**

Suncor is certainly the safer bet given its vertically integrated structure. Both companies are trading at about the same P/E ratio. The 4% difference in the dividend is probably not enough of an incentive to buy Canadian Oil Sands right now. Oil prices might drop further and a prolonged plunge could put Canadian Oil Sands' big dividend at risk.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

### **Category**

1. Energy Stocks
2. Investing

### **Date**

2025/09/18

### **Date Created**

2014/10/27

Author  
aswalker

default watermark

default watermark