

Suncor Energy Inc. vs. Canadian Natural Resources Ltd.: Which Is a Better Dividend Pick?

Description

The mood amongst energy investors is dour after oil prices fell off a cliff. With less cash coming in the door, shareholders are wondering if their dividends are safe.

But some adventurous investors are starting to pick through the rubble. **Suncor Energy Inc.** ([TSX: SU](#))([NYSE: SU](#)) and **Canadian Natural Resources Ltd.** ([TSX: CNQ](#))([NYSE: CNQ](#)) are popular bets because of their big payouts. Let's take a look at these two stocks to see if one is a better deal for income investors.

Canadian Natural Resources Ltd.

It's not hard to see the bull thesis at Canadian Natural Resources. The firm has one of the best growth profiles among large-cap energy producers and is gushing dividends.

Management made one thing clear at their recent investor day presentation: The company is going to be generating a tremendous amount of cash. With the completion of its Horizon oil sands facility, Canadian Natural Resources' annual free cash flow is projected to grow fivefold to \$5 billion by 2019.

Much of that cash is likely to be returned to shareholders in the form of dividends and buybacks. Over the past year, management has increased the company's payout by 30%. That's a sure sign it sees more good times ahead.

Suncor Energy Inc.

The bull case is a little less evident at Suncor. CEO Steve Williams has spent the bulk of his efforts trying to squeeze more cash out of existing operations. It follows a year in which the company scaled back its growth ambitions, scrapping its Voyageur upgrader, selling off natural gas properties, and chopping capital spending.

This is not the exciting stuff the oil industry is known for. And admittedly, Suncor's 2.9% yield might not whet the appetite of the most discerning income investor. However, scaling back the company's expansion has freed up an enormous amount of cash for shareholders.

Since taking the helm at Suncor in 2011, Mr. Williams has more than double the size of the company's dividend. In addition, he has also repurchased over 12% of the firm's outstanding shares. More dividend hikes and share buybacks are almost certainly on the way.

Who else wants more dividend income?

Agh! Choosing between these two isn't easy. But with the metaphorical gun to my head, I'm going to lean towards Suncor. With big chops to its capital budget, I expect the firm's dividend to grow at a faster pace over the next five years. And that slightly higher yield doesn't hurt, either.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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TICKERS GLOBAL

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

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