Suncor Energy Inc. vs. Cenovus Energy Inc.: Which Is the Best Investment?

Description

Suncor Energy Inc. (TSX: SU)(NYSE: SU) and **Cenovus Energy Inc.** (TSX: CVE)(NYSE: CVE) are Canada's largest integrated oil companies. Both have downstream operations that can help diversify earnings during volatile times in crude markets, but the similarities end there.

Let's take a look a both Suncor and Cenovus to see which one is a better choice for new investors.

Suncor Energy Inc.

Canada's largest integrated oil company earns revenue throughout the entire value chain. The company produces crude at its oil sands facilities, refines the crude in its refineries, and markets the finished products through its retail operations.

The model has helped Suncor during the recent weakness in oil prices as the downstream operations mitigated the effect of lower earnings on the production side.

In its Q3 2014 earnings statement, Suncor reported operating earnings of $0.89 per share that beat consensus estimates of 78 cents.

Falling WTI oil prices and unplanned maintenance at some of its facilities resulted in lower year-over-year quarterly results and Suncor stated that 2014 production could finish near the lower end of its guidance.

But investors should look beyond the short-term challenges. Suncor continues to improve its overall efficiency. The company's operating cost per barrel in Q3 2014 was $31.10 compared to $32.60 in the same period for 2013.

Suncor also commenced planned maintenance activities at three of its refineries in the third quarter. The work will be completed at the end of Q4 2014 and investors should see improved refinery utilization and production yields in 2015.

The company continues to maximize revenue on every barrel of oil it produces. In the third quarter, Suncor realized global-based pricing on 97% of its production.

Suncor pays a dividend of $1.12 per share that yields about 2.8%. The payout ratio is 45%. In the third quarter the company bought back $523 million in shares. Suncor trades at 11 time forward earnings and 1.4 times book value.

Cenovus Energy

Cenovus operates two world-class oil sands sites in a 50% joint-venture partnership with **ConocoPhillips**.

The company's Christina Lake project delivered a 30% year-over-year production increase in Q3 2014 hitting 68,000 barrels per day. Once Christina Lake is fully developed, production is expected to reach 300,000 barrels per day.

The Foster Creek project produced 15% more oil in the third quarter compared to 2013. Total production at the site is expected to reach 295,000 barrels per day by 2019.

The third site under development is Narrows Lake. The facility will have a total production capacity of 130,000 barrels per day.

Cenovus also has a large refining division that is capable of processing 430,000 barrels per day of crude oil. In the third quarter, year-over-year operating cash flow in the refining operations dropped 53%. Revenues were hit by an unplanned coker shutdown at the Borger Refinery and planned maintenance work at its Wood River Refinery.

Cash flow for Q3 2014 was 6% higher than the same period in 2013, despite lower crude prices and operational difficulties in the refining division.

Cenovus pays a dividend of $1.06 per share that yields about 3.8%. The payout ratio is 68%. The stock trades at 15.5 times forward earnings and 2.0 times book value.

Should you buy?

Suncor probably offers investors a better opportunity at the moment. The company trades at a lower multiple than Cenovus, and Suncor's diversification through the entire value chain is appealing in the current environment.

Cenovus has a higher dividend yield, but Suncor's lower payout ratio and strong buyback program should be taken into consideration when looking at total shareholder returns.

CATEGORY

1. Energy Stocks
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Date
2025/08/07
Date Created
2014/11/03
Author
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