

## Beat the Rout in Crude With 2 Top Energy Buys

### Description

The sharp sell-off of oil stocks continues as companies slash capital expenditures and dividends thanks to cash flows coming under increased pressure. However, it is not all doom and gloom in the patch, with a number of companies set to remain profitable and weather markedly lower crude prices. Two that stand out for very different reasons are **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) and **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)).

### Why Enbridge?

Enbridge is Canada's largest provider of midstream and transportation services to the energy patch. It is responsible for shipping over half of all crude exported from Canada to the U.S. This places it in the unique position of being a key link between the energy patch and crucial refining markets. As a result, it is able to collect a toll on every barrel of crude and every cubic metre of natural gas that it transports. These tolls can only continue to grow as Canadian crude production grows over the long term.

More importantly, Enbridge continues to retain a solid competitive advantage because its business is almost impossible to replicate. Not only does it require a significant capital investment to construct the pipeline network and supporting infrastructure, but there are also substantial regulatory barriers to overcome. These factors bode well for increasing volumes of crude to be transported, supporting future earnings growth while protecting earnings stability.

The end result is that Enbridge is well positioned to remain profitable despite the rout in oil prices, thereby protecting its dividend and increasing the likelihood of future dividend hikes. The resilience of its business has already allowed it to hike its March 2014 dividend payment by 33% at a time when many energy companies are cutting theirs. This is the 20th straight year that Enbridge has hiked its dividend, giving it a 3% dividend yield and an impressive compound annual growth rate of almost 11% over that period, or more than three times the annual average rate of inflation.

Such a solid record of dividend hikes makes Enbridge every income investor's dream.

### Why Suncor?

Suncor, as an integrated energy major, could not be more different from Enbridge, yet it too remains profitable despite weaker oil prices, and it is well positioned to weather the current operating environment. Suncor's fourth quarter 2014 results were disappointing, with cash flow down by 37% compared to the same quarter in 2013 and operating earnings down by a massive 60% for the same period.

Nonetheless, Suncor remained profitable, and these weak earnings were attributable to the rout in oil prices rather than any failure on Suncor's part.

Key among Suncor's strengths are its high quality and long reserve life portfolio of oil assets combined

with a fortress balance sheet. It is these aspects of its operations in conjunction with its refining business that leave it well positioned to withstand lower crude prices. This is because as crude falls in price, the margins in Suncor's refining business increase, which is also the key reason for the company now boosting refinery throughput and utilization rates.

However, the real reason investors should consider Suncor is its dividend. While it only pays a moderate yield of 3%, it certainly appears sustainable, with a conservative payout ratio of 54%. This leaves sufficient fat to absorb lower crude prices before cash flow and the dividend are affected.

### **Now what?**

Both companies are very attractive propositions for weathering the rout in crude prices and positioning for the much anticipated rebound. Both have long track records of rewarding patient investors with steadily growing dividends and appear attractively priced at this time, which makes both companies a solid addition to any portfolio.

### **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

### **TICKERS GLOBAL**

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:ENB (Enbridge Inc.)
4. TSX:SU (Suncor Energy Inc.)

### **Category**

1. Dividend Stocks
2. Energy Stocks
3. Investing

### **Date**

2025/09/18

### **Date Created**

2015/02/10

### **Author**

mattdsmith

default watermark