Which Stock Is a Better Buy for Dividend Investors: Imperial Oil Limited or Suncor Energy Inc.?

Description

Scan the top holdings of dividend funds and these two names pop up over and over: **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO) and **Suncor Energy Inc.** (TSX:SU)(NYSE:SU). These two firms are core positions for Canadian income investors and it's easy to see why.

Both companies are top oil sands operators. Both have long track records of paying dividends. And given the energy industry's current doldrums, there has never been a better time to scoop up both of these stocks on the cheap.

However, it's not easy for dividend investors to choose between these two firms. So today, we're tackling a pressing question: Which energy giant is a better bet for income? Let's see how these two blue chip stocks stack up on a range of measures.

1. Dividend yield. No contest here. Suncor yields 2.9%, which is more than double Imperial's 1.1% payout. So, if you're looking for current income, Suncor is your best bet. *Winner: Suncor*

2. Dividend history. Of course, investing isn't as easy as picking out the highest yield. We have to dig a little deeper than that to judge a dividend's quality. Imperial has one of the most dependable payouts in the country, given that the company has mailed a cheque to investors every year since 1891. Suncor has a long history of rewarding shareholders, too. However, the firm's dividend history only dates back to 1992. *Winner: Imperial*

3. Dividend growth. This is the metric most rookie investors overlook. To offset inflation, dividend growth is just as important as the current payout itself. Imperial has increased its distribution at a modest 6% compounded annual clip over the past decade. That's not bad, but it pales in comparison to Suncor. The cross-town rival has hiked its dividend 25% annually over the same period.
Winner: Suncor

4. Earnings growth. Of course, future payout increases depend on growing earnings. Unfortunately, low energy prices will mean muted earnings growth (and by extension, dividend hikes) from the oil patch going forward. Based on analyst estimates compiled by *Reuters*, Suncor's earnings per share aren't expected to budge over the next five years. Imperial, though, is expected to do a little better, with profits projected to grow at a modest 5% annual clip. *Winner: Imperial*

5. Valuation. Falling energy prices have hammered oil stocks, and Imperial shares have not been spared from the carnage. However, the weakness has allowed investors to pick up the stock at an unusually cheap 14 times forward earnings. Suncor shares, though, still sport a premium, trading at a steep 21 times next year's profits. That could make the stock vulnerable to a sell-off if results disappoint. *Winner: Imperial*

6. Management. In the oil business, we have a handy tool to determine how well executives are managing our money: return on capital employed, or ROCE. This metric measures the profits a business generates, while accounting for the amount of capital needed to earn those returns. Over the past five years, Imperial has generated an average annual ROCE of 25%, three times better than Suncor. *Winner: Imperial*

And the results are in…

As I said, Imperial and Suncor are both excellent energy companies. You really couldn't go wrong by adding either one of these to your portfolio.

That said, even though Suncor sports a bigger yield, I lean slightly towards Imperial for its faster growth, reasonable valuation, and great management team.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:IMO (Imperial Oil Limited)
4. TSX:SU (Suncor Energy Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/25
Date Created
2015/02/24
Author
rbaillieul