



## Which Is a Better Buy Now? Suncor Energy Inc. or Canadian Natural Resources Ltd.?

### Description

There are a lot of investors that see the dramatic drop in oil prices as a buying opportunity for oil stocks. The problem, however, is deciding which oil stock to buy. Today, I'll compare two of Canada's top oil stocks: **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) and **Canadian Natural Resources Ltd.** ([TSX:CNQ](#))([NYSE:CNQ](#)).

### Valuation

The first thing investors tend to look at when thinking about buying a stock is the valuation. The most common place investors like to look at is a company's P/E Ratio. However, that ratio can be deceiving when it comes to oil companies, as the *E* in the earnings ratio can be impacted to a greater degree by gains or losses on oil and gas hedging, as well as asset write downs when commodity prices fall.

That's why I prefer to also look at a company's Enterprise Value-to-EBITDA ratio (EV/EBITDA). This looks at the underlying cash flow that's generated by the business, while also factoring in leverage. It often tells a very different story, which is pretty evident on the following chart.

[SU vs CNQ value](#)  
Image credit from LinkedIn profile unknown

As we see in the chart, Suncor's P/E Ratio makes it look really expensive when compared to Canadian Natural. However, on an EV/EBITDA-basis, Suncor edges out Canadian Natural. Given my preference for that ratio, as I believe it's a more accurate measure for energy companies, I'd give Suncor a slight edge in this case.

### Balance sheet

Another area that's key for investors is finding a company with a strong balance sheet. As we've seen in the aftermath of the recent oil-price plunge, having a strong balance sheet has enabled companies to maintain their dividends and keep their growth plans on track, while peers with weaker balance sheets have been forced to make deeper cuts.

Both Canadian Natural and Suncor have a strong balance sheet, but as we see on the following chart, Suncor again has a slight edge.

[SU and CNQ balance sheet](#)

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As that chart notes, Suncor has a slightly lower debt-to-EBITDA ratio and its total net debt is a smaller portion of its enterprise value. That gives it a slight advantage in the battle for the better-buy rating.

## Returns

The final area we'll compare is the returns these companies generate. Higher returns tells us that the company is a better capital allocator. Here, we see that the companies have really battled over the past few years, but lately Canadian Natural has come out on top.

## SU vs CNQ returns

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Over the past year, Suncor's returns have been heading in the wrong direction, while Canadian Natural's returns have been improving. That's a reverse of the trend over the past few years, as these two have been neck and neck, with Suncor typically taking the lead. That said, in a world where "what have you done for me lately?" is the motto, Canadian Natural wins out.

### Investor takeaway

These two companies are very evenly matched. In fact, while Suncor might have won two out of the three categories, one could easily argue that because Canadian Natural's returns are better, it deserves to sell at a premium to Suncor. The two are so close in the other two categories that Canadian Natural's improving returns make it the better buy right now.

### CATEGORY

1. Energy Stocks
2. Investing

### 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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