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

Description

Scan the top holdings of Canadian investors and two names pop up over and over: **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) and **Suncor Energy Inc.** (TSX:SU)(NYSE:SU).

These two firms are core positions in many portfolios and it's easy to see why: both pay reliable dividends and are top oil sands operators. And if you believe in buying wonderful businesses when Mr. Market throws a sale, low energy prices have allowed investors to buy both of these stocks on the cheap.

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

1. Management: Evaluating executives is difficult because so many aspects of the job are intangible. Thankfully, in the oil business we have a simple indicator to determine how well management is doing: return on capital employed (ROCE). It's like a report card for executives. This metric measures the profits a business generates, while accounting for the amount of capital needed to earn those returns. Over the past year, Suncor has generated a ROCE of 11%, nearly double the return that Cenovus delivered. *Winner: Suncor*

2. Yield: At first glance, Cenovus is the obvious choice. Today, the stock sports a dividend yield of 5%, which is one of the highest around. However, at today's low oil prices, the company isn't generating enough cash to fund its business and pay shareholders. As a result, Cenovus has been forced to issue equity to maintain its payout. In essence, the company is literally paying shareholders with their own money. That's why Suncor's lower 3.2% dividend is actually a better deal. *Winner: Suncor*

3. Dividend history: Dividend reliably is equally important. After all, we don't want to see our income stream dry up without warning. Suncor has one of the most dependable payouts in the country, given that the company has mailed a cheque to investors every year since 1992. Cenovus, too, has a long history of rewarding shareholders. However, the firm's dividend history only dates back to when it was spun off from **EnCana** back in 2009. *Winner: Suncor*

4. Dividend growth: This is the metric that most investors overlook, but to offset inflation, dividend growth is just as important as the current payout itself. Cenovus has increased its distribution at a modest 6% annual clip over the past five years. That's not bad, but it pales in comparison to Suncor. The cross-town rival has hiked its dividend 23% annually over the same period. *Winner: Suncor*

5. Earnings growth: Of course, future payout hikes depend on increasing profits. Unfortunately, low oil prices will mean lackluster earnings growth (and by rough extension, low dividend hikes) from the oil patch for the time being. Based on analyst estimates compiled by *Reuters*, Suncor's earnings per share aren't expected to budge over the next five years. Cenovus, though, is expected to fare much worse, with profits projected to decline by 10% annually over the same period. *Winner: Suncor*

6. Valuation: Suncor has not been spared from the carnage in the oil patch. However, the weakness has allowed investors to pick up shares at an unusually cheap 1.2 price to book multiple, which is below the stock's historical average and in line with peers. Cenovus shares, however, still sport a premium, trading at a steep 1.6 price to book multiple. That could leave the stock vulnerable to a sell-off if results disappoint. *Winner: Suncor*

And the results are in…

Cenovus and Suncor are both top energy companies. But that said, the results speak for themselves. On every metric, Suncor wins hands down.

So, if you can only own one oil stock, this is the name to hold.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:SU (Suncor Energy Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/07/03
Date Created
2015/03/17
Author

rbaillieul