Want to Bet on Oil? Buy the Bank of Nova Scotia Instead of Suncor Energy Inc.

Description

The past year has not been a good one for Canada's energy companies. During this time, oil prices have fallen by nearly 60%, putting many of these companies in financial trouble.

At this point, many people believe the sector has hit rock bottom, and prices can only recover from here. Based on this logic, now is the perfect time to buy energy stocks.

So, that leaves one important question: What's the best way to make this bet? Some might want to buy a heavily-indebted oil producer. This is a very risky strategy, but comes with a massive payoff if things go well. Others may opt for a more stable company like **Suncor Energy Inc.** (TSX:SU)(NYSE:SU). This is certainly a safer way to go, but it comes with less reward.

That said, there's another way: buy a Canadian bank. This strategy comes with much less risk, but still has plenty of reward. To illustrate, we show you why the **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is a better buy than Suncor.

Still a bet on energy

There's no denying that low oil price has been bad for the Bank of Nova Scotia. Alberta's economy is suffering from low economic output and massive layoffs, which could lead to higher loan losses in the province. The bank also has more than $15 billion in outstanding loans to energy companies. Finally, capital markets revenue will likely suffer as energy companies cut back.

So, make no mistake: if oil rebounds, then the bank will benefit. In other words, you don't have to buy an energy company to bet on an oil rebound.

More diversification

Suncor is very well-diversified for an energy company. It produces heavy oil, synthetic crude, and natural gas all over the world. It has a great downstream franchise, which includes the Petro-Canada gas stations. Still, Suncor remains a risky bet; if oil prices fall, the shares could really tank.

On the other hand, the Bank of Nova Scotia is a much safer bet. It has a diversified loan book both in Canada and abroad. It gets revenue from retail banking, commercial banking, wealth management, and capital markets. It has a very wide reach in Latin America. So, if oil prices fall further, it only affects part of the bank's business.

A cheaper price?

Over the last 12 months, Suncor shares are only down by 0.6% as of this writing. Meanwhile, Bank of Nova Scotia stock is down by 2.5%. Even though oil prices are down nearly 60%, you're better off holding Suncor shares than Bank of Nova Scotia.

How is this possible? Well, Suncor has become a very popular way to bet on an oil recovery. It's easy to see why—it has low costs, responsible management, and a strong balance sheet. Meanwhile, the Bank of Nova Scotia has had some struggles, especially in the Caribbean.

That being the case, it's hard to argue whether Suncor is cheaper than Bank of Nova Scotia. So, the latter is a much better bet.

CATEGORY

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bensinclair