Does Canadian Natural Resources Ltd. or Suncor Energy Inc. Belong in Your Portfolio?

Description

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ) and **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) are getting close to their 12-month lows and long-term energy bulls are wondering if this is the right time to start a new position in these stocks.

Let's take a look at the two energy giants to see if one deserves to be in your portfolio.

Canadian Natural Resources

With a market cap of $38.5 billion, Canadian Natural is a powerhouse in this country's oil and gas industry.

The company owns a wide variety of assets including heavy, medium, and light crude oil, natural gas, and natural liquids. These properties are not only spread out across western Canada, they are also located in the North Sea as well as offshore Africa.

Management is doing a great job of ensuring the company continues to operate efficiently through the current downturn. In the first quarter, CNRL reduced year-over-year operating costs in its liquids operations by 22%. Natural gas production costs dropped 10%.

Canadian Natural has an advantage over a number of its peers in that it tends to own 100% of its assets. This gives the company great flexibility to move capital quickly when it needs to for political or commodity-based reasons.

At the moment the company is revisiting its spending plans in Alberta. One option would be to ramp up development in northeastern B.C., where Canadian Natural owns large holding of undeveloped property.

The company has a strong balance sheet and investors shouldn't be surprised if Canadian Natural starts buying distressed assets as struggling oil and gas companies are forced to shed properties.

Most oil companies have either cut their dividends or are evaluating plans to do so. Canadian Natural Resources isn't one of them. In fact, the company actually increased its payout earlier this year. Investors should see this as a strong signal that management is confident about the company's prospects.

Suncor Energy

Suncor is Canada's largest integrated energy company with assets that deliver revenue all along the hydrocarbon value chain. This diversification is a big reason why the company's shares have held up much better than the pure-play producers.

In its upstream operations, Suncor is primarily an oil sands producer. The company controls an immense resource base of 7.7 billion barrels of reserves, with the majority of that located in one core area. This is a huge advantage because Suncor can simply focus on improving production efficiency and doesn't have to spend important capital to acquire new properties.

In the midstream operations, Suncor runs four large refineries that take crude oil and turn it into end products such as gasoline, diesel fuel, asphalt, and lubricating oil. On the retail end, Suncor sells the fuel and other products through more than 1,500 Petro-Canada service stations.

The refining and retail units provide stable and predictable revenue streams that help offset weakness in the upstream segment.

Which should you buy?

Both companies are in limbo right now due to the uncertainty surrounding the NDP government's plans to modify royalty fees and corporate taxes.

At the same time, Canadian Natural lost production this quarter due to wildfires near its oil sands operations and Suncor is dealing with the delayed start up of a key pipeline reversal. This could have a negative impact on Suncor's refining operations in Montreal.

Investors could see more weakness in all energy stocks in the coming months, but these two companies will be dominant players for decades. Any further decline in the stocks should be seen as an opportunity to start a long-term position in both names.

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.)

Category

1. Energy Stocks
2. Investing

Date
2025/09/09
Date Created
2015/06/19
Author
aswalker