



Why Goldman Sachs Says You Should Buy Suncor Energy Inc. and Sell Cenovus Energy Inc.

Description

Goldman Sachs is now covering the Canadian oil sands, and its analysts generally think these companies are more attractive than most global producers.

When choosing between oil sands companies, Goldman says you should be looking for growth in dividends and production. And that means choosing companies like **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) over **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)).

We take a closer look below.

Why Goldman likes Suncor

In years past, Suncor was known for pursuing growth at any cost. But under current CEO Steve Williams, the company has become much more disciplined, and has returned ever-greater sums of money to its shareholders. From 2010 to 2014 Suncor's dividend increased by more than 150%, and by the end of that time frame, the company was spending even more on share buybacks.

Over the same time, Suncor has grown oil sands production by more than 7% per year. And even with low oil prices, the company is expected to grow by 3% per year to 2020. In the meantime, Suncor's strong balance sheet gives the company plenty of flexibility.

Overall, Goldman has set a US\$34 price target on Suncor's U.S.-listed shares, well above the current price of US\$27.50.

Why Goldman dislikes Cenovus

Until a couple of years ago, similar statements could have been made about Cenovus. The company has two very lucrative properties—Foster Creek and Christina Lake—and for a while, it had a great production-growth profile.

But in recent years there have been operational problems at Foster Creek, and the slump in oil prices

has only made things worse. The company has reacted strongly, with \$700 million in spending cuts and \$1.5 billion in new equity. That said, the outlook is very much in doubt—there has even been speculation of a dividend cut. If oil prices stay low, or decrease further, such rumours may very well turn into reality.

For these reasons, Goldman has assigned a US\$15 price target on Cenovus's U.S.-listed shares. They currently trade at just over US\$16.

What should you do?

First, you must remember that Goldman's opinion came from oil and gas analysts. These analysts are responsible for picking their favourites from within the sector only. So, even if they think none are worth buying, they still have to indicate their favourite.

Thus, you should tread carefully before investing in oil and gas at all. As individual investors, we don't have to buy stocks from each sector, unlike many professional money managers. Besides, there are other forms of energy that have a better future than oil and gas.

CATEGORY

1. Energy Stocks
2. 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.)

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