Should You Buy Suncor Energy Inc. or Crescent Point Energy Corp.?

Description

Oil prices are once again hovering around US$50, putting many producers under serious pressure. Sooner or later, we're likely going to see some players buckle completely.

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And when that happens, the remaining survivors could benefit from a price bump. This won't happen anytime soon though, so when choosing oil stocks you must pick companies that can last a long time.

Two companies that come to mind are **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG). But which one is the better buy?

What makes these companies great candidates?

There are a few reasons why these companies are particularly resilient in this oil price environment.

First of all, both companies operate at very low costs. Suncor's oil sands operations have a cash operating cost of less than $30 per barrel, while Crescent Point's operating expenses per barrel are roughly $12. So, even in this oil environment, they're still generating lots of cash flow.

Secondly, both companies have a strong balance sheet. As of the end of last quarter, Crescent Point's net debt of $3.5 billion was just 1.6 times funds flow from operations, and just 22% of total capitalization. Suncor's balance sheet is even stronger, with net debt of just 1.2 times cash flow, or just 16% of total capitalization. This not only gives the companies staying power, but also allows them to take advantage of lower prices, perhaps by snapping up a weaker player.

There are a couple of other reasons to like these companies. Crescent Point has a very strong hedging program, having locked in more than 50% of remaining 2015 production at an average price above $85 per barrel. And Suncor's integrated model gives the company more flexibility and diversification.

Which one is better?

There is one very big difference between these companies: their dividend. Crescent Point has a monster $0.23 per month dividend, good enough for a 13% yield at today's prices. Meanwhile, Suncor pays out only $0.28 per *quarter*, equivalent to about a 3% yield.

Does that make Crescent Point the better option? After all, you'd get paid handsomely while you wait for oil to recover.

Absolutely not—Crescent Point's dividend should turn you away for a couple of reasons. First of all, this is a golden opportunity for energy companies to expand, with such low costs for labour, equipment, and assets. Crescent Point has less money available for this because of its dividend.

Secondly, Crescent Point has to issue millions of new shares each month to cover its dividend payments. As the stock price falls, the company needs to issue more and more stock. Those new shares come with dividend obligations, too. This leads to a snowball effect, one that could end with a dividend cut down the road. I wouldn't want to be caught up in that.

So, if you're looking for a safe energy stock, there's nothing wrong with keeping it simple. You should stick with a company like Suncor.

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