



Which Energy Stock Is a Better Turnaround?

Description

Both **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) and **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)) are down from their highs. So, you might think they're good buys now. Which is a better turnaround opportunity though?

Both companies are exposed to the volatility of commodity prices. Falling commodity prices have brought down their stock prices in the last year, so rising commodity prices should cause their stock prices to go up.

How much cheaper are they?

In 2014 Suncor Energy hit a high of \$45 and now trades under \$37 per share, a drop of close to 18%. Canadian Natural Resources hit a high of \$47 in 2014 and is now around \$32, a drop of 32%.

Let's compare their fundamentals to decide which is a better turnaround buy.

Financial strength

A successful turnaround must be supported by a strong financial profile to survive hardships. Suncor Energy has an S&P credit rating of A- and a debt/cap of 25%, while Canadian Natural Resources has an S&P credit rating of BBB+ and debt/cap of 33%.

So, Suncor Energy is financially stronger and has a better chance of surviving in the current low-commodity-price environment.

Yield and payout ratio

At under \$37 per share, Suncor Energy yields almost 3.2%. In the third quarter that ended on September 30, Suncor Energy posted earnings per share (EPS) of 28 cents, while its quarterly dividend is 29 cents per share.

So, if low oil prices continue, Suncor Energy's dividend would be unsustainable without it having to use

its cash position or borrowing debt. One thing to note is based on trailing 12-month (TTM) numbers, Suncor Energy's operating cash flow-payout ratio is under 23%.

Suncor Energy's TTM free cash flow per share is 63 cents.

At about \$32 per share, Canadian Natural Resources yields almost 2.9%. In the third quarter that ended on September 30, Canadian Natural Resources posted EPS of 10 cents, while its quarterly dividend is 23 cents per share.

So, if low commodity prices continue, Canadian Natural Resources's dividend would be unsustainable without it having to use its cash position or borrowing debt. Based on TTM numbers, Canadian Natural's operating cash flow-payout ratio is under 16%.

Canadian Natural Resources's TTM free cash flow per share is 60 cents.

Dividend-growth record

Suncor Energy has increased its dividend for 12 consecutive years. It last increased it by 3.6% in September. Canadian Natural Resources has raised its dividend for 14 years in a row. It last increased it by 2.2% in March.

Valuation

Since their earnings are so volatile, I'll use the price-to-book (P/B) metric instead of the price-to-earnings ratio. Suncor's P/B has remained around 1.3 since 2012. For comparison, its P/B was 1.5 and 1.7 in 2008 and 2009 (during the last recession), respectively.

Canadian Natural Resources's P/B is also 1.3. Since 2012, its P/B has oscillated between 1.3 and 1.5. In 2008 and 2009, its P/B was 1.4 and 2.1, respectively.

In conclusion

Because of its stronger financial strength, Suncor Energy is the safer turnaround pick. However, investors will probably get more upside from Canadian Natural Resources than Suncor when commodity prices rise again, but with slightly higher risk.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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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.)

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