Crescent Point Energy Corp. or Suncor Energy Inc.: Which Is a Better Bet Today?

Description

Investors who missed the rally in oil stocks this year are watching the current pullback with greedy eyes.

Let's take a look at **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) and **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) to see if one is an attractive pick right now.

Crescent Point

The former dividend darling is going through an attitude change.

The company used to fuel growth by paying out more than 100% of cash flow in the form of a fat dividend. The big payout ensured investors were always willing to line up to buy new stock, and the company used the funds from the equity issues to fund acquisitions and development.

The model worked well as long as the company could keep the game going, but the rout in the oil patch has changed things.

Crescent Point was forced to slash its monthly dividend from $0.23 per share to $0.10 and then again to the current level of $0.03. Now the company is squarely focused on ensuring it can live within its cash flow.

Yield investors have since abandoned the stock, but value hunters are starting to kick the tires.

Management has done a good job cutting costs and capital expenses while maintaining output. Capex dropped 30% last year and is still falling. Output, on the other hand, is actually rising. Production hit a record 178,241 barrels of oil equivalent per day (boe/d) in Q1 and Crescent Point expects output to be about 165,000 boe/d in 2017.

Oil is back down to US$40, so things are going to start getting tight. Crescent Point says it can tread water next year if oil averages US$45 or better.

The balance sheet remains in good shape, and Crescent Point has about $1.3 billion in available liquidity, so there is ample cash available to fill the gap if oil continues its recent pullback.

Beyond the current volatility, this company looks attractive. The asset base is one of the best in the business, and Crescent Point has 14 years worth of drilling targets lined up to deliver growth when oil prices recover.

Suncor

Suncor is Canada's largest integrated energy company with assets that include oil sands production, refining facilities, and retail operations.

The diversified business model continues to be the company's saviour as the marketing operations (refining and retail) carry the battered oil sands division through troubled times.

Suncor's Q2 2016 numbers were pretty ugly as shut downs caused by the recent forest fires hit production numbers and operating costs. The company reported a Q2 operating loss of $565 million as compared to operating earnings of $906 million in Q2 last year.

The marketing operations performed well and enabled the company to maintain positive cash flow during the quarter despite the difficulties in the oil sands.

Suncor continues to invest for the future while reducing expenses. The company raised its stake in Syncrude by 5% during the quarter and now has a majority equity position in the project. The Fort Hills development is moving along as planned, and Suncor remains on track to cut $750 million in total capital outlays this year.

The company still has a war chest of cash, and investors could see more acquisitions in the near term.

Suncor pays a quarterly dividend of $0.29 per share. That's good for a yield of 3.4%.

Which should you buy?

Both of these companies will survive the rout and are top long-term picks in a stronger oil world.

If you want the safer play, go with Suncor. The integrated nature of the business provides better downside protection, and you'd get a decent dividend to boot.

If you think oil is definitely headed higher and you can stomach more volatility, Crescent Point should offer more torque to the upside when the market turns.

At the moment though, oil is in retreat again, so I wouldn't rush to back up the truck just yet for either name.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSE:VRN (Veren)
3. TSX:SU (Suncor Energy Inc.)
4. TSX:VRN (Veren Inc.)

Category

1. Energy Stocks
2. Investing

Date
2025/09/03
Date Created
2016/08/04
Author
aswalker