Bullish on Oil? Then Buy Crescent Point Energy Corp., Not Suncor Energy Inc.

Description

As the crash in the oil market gripped the market in 2014 and especially 2015, many investors saw their once previously secure energy dividends evaporate.

Investors reacted in a few different ways. Some held on, following the logic that it's silly to sell at a low point. Others punted their shares, either swearing off the energy sector for good or vowing to come back once the price of the commodity ticked upwards again.

And finally, some decided to get their energy exposure from safer names. **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) was a popular choice, as investors were attracted to its diversified business model. Besides its oil sands operations, Suncor is the owner of refineries, a downstream liquids business, a fleet of more than 1,500 Petro-Canada gas stations, and other divisions that aren't so sensitive to commodity prices.

This has shown to be a pretty good move. Since June 2014, when oil peaked, Suncor shares are down 16.3%–less than 10% including the return from dividends. **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), another popular energy producer, saw its shares decrease nearly 55% during the same period. Additionally, Crescent Point cut its dividend twice, dropping the monthly payout all the way from $0.23 per share to just $0.03.

While it was a good idea to hold Suncor shares on the way down, I don't think it'll be a good idea on the way up. The company probably won't do too badly, but here's why Crescent Point will be the far better choice.

What goes down…

The relationship isn't perfect, but it does exist often enough for me to point it out: if a stock falls more on the way down than a peer, then it'll rise on the way back up more than a peer.

Because of its downstream businesses, Suncor doesn't have as much operating leverage on the price of oil as Crescent Point. Sure, the price of the commodity affects Suncor, but it makes a far bigger difference to Crescent Point. This relationship has been made very clear by the way the two companies reacted when crude crashed.

Well positioned

Canada's small- and mid-cap oil producers can be divided into two groups. The first is still in danger, although perhaps not as bad as before. The second are well positioned and are even in the position to make acquisitions.

Crescent Point is squarely in the second group. Although I'm sure the company would have rather made some of its acquisitions after the price of crude plummeted, its balance sheet is still in pretty reasonable shape.

As of June 30, Crescent Point had $4.2 billion in total debt, which is divided between $1.7 billion in senior guaranteed bonds and $2.2 billion borrowed from banks. Less than $200 million of the bonds are due by 2019, and the bank debt has a renewal date of June 2019. Additionally, the company can still borrow $1.4 billion from banks if it decides to go shopping for assets. Most of its peers don't have that much liquidity.

Crescent Point is somewhat unique in today's environment. It is actually growing production, using its funds flow to pay for capital expenditures and cash dividends, and it'll have about $300 million left over–or so say the company's 2016 forecasts. If crude stays at $50 per barrel for 2017, the company plans to have $200 million in excess funds flow.

And finally, Crescent Point has done a nice job hedging its production. It has 45% of production for the rest of 2016 hedged with the percentage dropping to 30% for the first half of 2017. This program gives the company some pricing certainty while still giving it nice upside if oil really starts to recover.

Conclusion

Suncor is a fine company, and if you feel oil will stay at today's levels for a long time, it is the prime choice in the sector. But if you believe oil is going to recover, Crescent Point is the far better choice. It's more exposed to commodity prices, which is a good thing in a rising price environment.

CATEGORY

1. Dividend Stocks
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