



Suncor Energy Inc. vs. Canadian National Railway Company: Which Is a Better Bet?

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) and **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) are two of Canada's top stocks.

Let's take a look at the industry giants to see if one is a better pick right now.

Suncor

Forest fires and a prolonged oil rout have taken a toll on Suncor's oil sands operations, but the company has other businesses that continue to do well.

Suncor's four refineries and 1,500 Petro-Canada retail locations have helped the company ride out the downturn in the oil market. In fact, Suncor managed to deliver positive free cash flow in Q2, despite all of the troubles in Alberta.

Pundits are all over the map when it comes to projections for oil prices in the near to medium term, but Suncor's management team thinks in decades and is betting on strong demand over the next 50 years.

That's why the company has taken advantage of the weak market conditions to add assets at fire-sale prices, including deals that have pushed its ownership of the Syncrude oil sands project above 50%. Suncor won its takeover battle for Canadian Oil Sands and recently purchased a 5% Syncrude stake from **Murphy Oil**.

Suncor is also beefing up its international assets with a just-announced deal for a 30% stake in the North Sea Rosebank project.

The company has one of the strongest balance sheets in the energy sector and is still sitting on a war chest of more than \$3 billion in cash and cash equivalents, so investors could see more deals in the near term.

Dividend investors often look elsewhere for opportunities, but this stock has a solid track record of

dividend growth and currently pays a reasonable 3.4% yield.

CN

CN is the only railway in the U.S. and Canada that can offer customers access to three coasts.

That's a great competitive advantage and is one that is unlikely to be matched, but CN doesn't sit back and rely on its wide moat.

The company works hard at improving efficiency across the business and is widely viewed as the best-run railway in the industry. CN reported a record Q2 operating ratio of just 54.5%. That's down nearly 2% better than the previous year. The metric is important because it indicates the company's operating cost as a percentage of revenue.

The rail industry is working its way through a downturn in the economic cycle. CN's year-over-year revenue slid 9% in Q2, but the company managed to deliver \$1.10 per share in earnings, which was in line with the Q2 2015 number.

Dividend investors like this stock because it kicks off a ton of cash, and management is generous when it comes to sharing the profits with investors. CN raised its dividend by 20% earlier this year and has hiked the payout by an average 17% per year over the past two decades.

Which is a better bet?

Both stocks are top picks for buy-and-hold investors and deserve to be in any portfolio. If you think oil has bottomed and is destined to return to the highs before the crash, Suncor might be the way to go.

Otherwise, CN is a great buy-and-forget stock for any investor who wants a stable company with strong dividend growth.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:SU (Suncor Energy Inc.)

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