Should Suncor Energy Inc. or Encana Corp. Be Your Next Oil Bet?

Description

Oil prices are picking up a tailwind on the back of an OPEC–led agreement to freeze production.

Let's take a look at **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Encana Corp.** (TSX:ECA)(NYSE:ECA) to see if one is a better pick right now.

Suncor

Suncor is Canada's largest integrated energy company with assets ranging from oil sands production to refineries and gas stations.

The diversified nature of the revenue stream is a big reason why the stock has held up so well throughout the oil rout.

The upstream operations have had a tough run of late with low oil prices and the Alberta wildfires putting pressure on oil sands revenues. Fortunately, the downstream businesses are doing well, and Suncor's strong refining and retail results helped offset the weak Q2 production numbers.

Suncor has one of the strongest balance sheets in the oil patch, and management is taking advantage of the position to add new assets, while the broader energy market is still struggling. The company has increased its ownership of Syncrude to more than 50% through its takeover of Canadian Oil Sands and the purchase of a 5% stake from **Murphy Oil**. Suncor also just announced a deal to acquire a 30% stake in the North Sea Rosebank project.

The dividend is one of the few in the sector that has survived the oil rout, and the distribution should be safe. The current payout yields 3.2%.

Encana

Encana hasn't fared nearly as well.

The company has battled to stay alive throughout the oil crisis, as huge debt taken on to make large acquisitions at the top of the market threatened to bury the stock.

Management has done a good job of selling assets and raising capital at opportune times to keep the company going, and turnaround efforts continue. Encana recently raised US$1 billion in a public share offering. The company will use half of the proceeds to fund its 2017 capital plan and allocate the rest to pay down the company's credit facilities.

Long-term debt remains a concern, but Encana has roughly US$3 billion in available credit, so there isn't a threat of an immediate cash crunch.

The stock has more than tripled off the February low on the rebound in oil prices, and there could be an opportunity for a takeover premium if one of the larger players decides to take a run at the company's attractive assets.

Which should you buy?

Suncor is the safer way to play the oil market. The company is not at risk of going bust if oil tanks again and will benefit from higher prices.

Encana probably offers more torque to the upside on stronger prices, but the downside risk is also extensive.

If you think oil has bottomed and are willing to assume the risk of being wrong, Encana is probably the way to go. Conservative investors looking for slow and steady growth should buy Suncor.

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aswalker