2 Energy Stocks I’d Buy Over Suncor Energy Inc.

Description

There’s a lot to like about **Suncor Energy Inc.** (TSX:SU)(NYSE:SU).

The company is a true energy giant, which gives it a number of underrated advantages. It has the balance sheet strength to take on big acquisitions — something management did with gusto in 2016. Banks and pension funds are much more likely to lend to a company like Suncor versus a struggling peer.

I also like Suncor’s diversified business model. It isn’t just Canada’s largest oil producer. It also owns refineries, a downstream liquids division, and more than 1,500 Petro-Canada gas stations. These assets are a big reason why Suncor shares performed much better than peers during the last couple of years.

But just because I like Suncor as a company doesn’t mean I think it’ll make a good investment. Don’t get me wrong; I’m not suggesting anyone should avoid or even sell Suncor shares. I don’t dislike Suncor as an investment here. I just think there are better choices.

Here are two oil stocks I’d buy over Suncor today.

Husky Energy

I’ve never really gotten the relationship investors have with **Husky Energy Inc.** (TSX:HSE). The company is one of Canada’s largest integrated oil producers with a market cap of $16 billion, yet it has performed more like a struggling producer 100% tied to the price of crude.

Management has been making smart moves to get the company through these tough times. Net debt fell from $6.8 billion on September 30, 2015, to $4.4 billion at the end of the last quarter. Costs have been cut significantly too. In 2015, the company spent approximately $3 billion on sustaining and maintenance capital. In 2017, management expects to spend $2 billion.

Operating costs per barrel of oil are falling as well. In 2014, operating costs were more than $17 per barrel. These days the number is closer to $14 per barrel.

This means Husky can be quite profitable, even if oil doesn't head much higher. Management predicts the company will generate $4 billion in cash flow from operations in 2017 if crude remains at US$50 per barrel. That works out to about $4 per share, making Husky one of the cheapest stocks in the energy sector today.

Baytex Energy

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) doesn't have a lot of similarities with Husky. It's a highly indebted producer that needs higher oil prices to survive.

This is exactly why investors should be taking a look at it.

Baytex currently has a market cap of $1.3 billion while owing $1.8 billion to creditors. The good news is, the debt is all long term in nature. The earliest maturity doesn't come until 2021.

The company has also been doing a good job bringing costs down. It can break even on its Eagle Ford production even if crude falls to US$30 per barrel. Costs from its northern Alberta operations are a little higher, coming in at approximately US$40 per barrel. So even if crude doesn't recover in 2017, Baytex won't go backwards.

As for the amount of upside, I'll say this: the last time crude oil was above $60 per barrel, Baytex shares traded for $20 on the Toronto Stock Exchange. There's no guarantee such a thing happens again, but the relationship is obvious. Baytex is highly levered to crude oil.

The bottom line

It's simple. While Suncor is a great company, it just isn't levered enough to higher energy prices. As crude oil heads higher, investors will migrate from it to companies like Husky and Baytex, which have much higher operating leverage. They're poised to outperform as crude recovers.

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