Small or Large Energy Stocks: Which Is Better?

Description

Generally speaking, large energy stocks are more diversified and less volatile than small energy stocks. Large energy stocks are typically easier to hold on to as investments and are lower risk. However, investing in small energy stocks is like riding a roller coaster, but they can deliver exceptional upside.

Here's a comparison between **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Spartan Energy Corp.** (TSX:SPE).

Suncor

Suncor is a large integrated energy company. Other than producing oil, it also has a network of Petro-Canada gas stations across Canada and profitable refining operations.

Suncor's diversified business allows it to withstand the fluctuations in commodity prices better than small energy companies. Between the time the WTI oil price collapsed from more than US$100 per barrel to seemingly stabilizing at about US$50 today, Suncor's share price has hardly budged. The shares have declined less than 5% in the last two years. From peak to trough, it was a decline of about 33%.

Although Suncor's dividend-growth rate is bumpy from year to year, over the long term, its dividend growth has been stellar. Its 2016 annual payout was only 0.8% higher than it was in 2015, as management remained cautious with the new normal of low energy prices.

This year, Suncor hiked its dividend by 10.3%. The company has hiked its dividend every year since 2003 at a compound annual growth rate of about 20%! This shows that Suncor manages its capital well and is shareholder friendly. Currently, it offers a 3.1% yield at about $40.80 per share.

It's also interesting to note that since 2013, the shares have returned reasonable annualized returns of 9.9%, which outperformed the broad market's (**S&P 500** is used as a proxy) annualized returns of 8.6% in the period.

Suncor plans to grow production by about 10% per year from 2016 through 2019.

Spartan

Spartan is a small energy company, but it's one of the largest light-oil-producing companies in Saskatchewan. It focuses on developing an asset base which can deliver repeatable, low-risk growth while generating free cash flow in different commodity price environments.

Comparing the same period from US$100 oil price to US$50, when Suncor shares declined less than 5%, Spartan shares fell about 46%, which was also roughly the peak-to-trough decline percentage.

Management targets to grow production by 10-15% per year, while keeping capital spending in line with cash flow generation.

Investor takeaway

Between Suncor and Spartan, Suncor will be a smoother ride as an investment, but Spartan will have stronger upside if oil prices head higher. Although Suncor's production growth matches Spartan's lower-end production guidance, higher oil prices will have a smaller impact on Suncor due to its more diversified business.

Based on analysts' mean 12-month price targets, Suncor and Spartan have upside potential of 19% and 92%, respectively. Again, although Spartan's returns look attractive, investors should note that the stock will be more volatile, and it's a riskier investment.

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