Should You Buy Suncor Energy Inc. or Cenovus Energy Inc.?

Description

Weakness in the oil market has investors trying to decide which names in the sector are the best picks for a potential rebound.

Let's take a look at **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) to see if one is an attractive contrarian play today.

Suncor

Suncor's stock has held up well through the oil rout.

The share price topped out at $46 when oil was US$100 per barrel in 2014. At the time of writing, investors are still paying $38.50 per share, despite WTI oil being at US$43 per barrel.

The plunge in the Canadian dollar over the past three years has helped a bit, but other Canadian producers have not fared nearly as well through the rout.

Why?

Suncor is Canada's largest diversified energy company with oil sands, refining, and retail assets. The upstream operations are feeling the pinch at lower oil prices, but the refineries and 1,500 Petro-Canada service stations tend to offset the pain.

Suncor has taken advantage of its strong balance sheet to add strategic assets at attractive prices, including the acquisition of Canadian Oil Sands and other tuck-in purchases.

The balance sheet remains healthy, and Suncor continues to raise its dividend, despite the lingering pain in the broader energy sector.

The payout currently yields 3.3%.

Cenovus

Cenovus recently closed a deal to buy out its 50% partner, **ConocoPhillips**, in its oil sand operations.

The $17.7 billion acquisition doubles the company's oil sands production and reserve base and also gives Cenovus significant assets in the Deep Basin play.

The company plans to sell off $4-5 billion in non-core assets, including the entire legacy conventional oil portfolio, by the end of the year to help pay for the acquisition and cover the $3.6 billion bridge facility used to get the deal done.

Investors are not impressed with the acquisition, as the stock has fallen more than 45% since it was announced in late March.

Credit rating downgrades haven't helped.

The company recently came out with a plan to generate 14% annualized free funds flow growth through 2021 if WTI oil can average US$55 per barrel.

The market didn't think much of the plan, given the fact that WTI oil is currently at US$43.

Cenovus traded for more than $32 per share and paid a quarterly dividend of $0.27 in the summer of 2017. Today the stock is close to $9.25, and the dividend is a mere $0.05 per share.

Should you buy?

If you like oil as a long-term play but are concerned about further weakness in the next year, Suncor is probably the safer bet to make. The company has a strong balance sheet, and the dividend should be safe.

Cenovus has some significant upside potential if you believe oil is close to a bottom and the company can get the prices it wants for the assets it is trying to sell. At this point, however, I would keep any bet small, just in case things go the other way in the coming months.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/02
Date Created
2017/06/27
Author
aswalker