Should You Buy Canadian Natural Resources Limited or Suncor Energy Inc. Today?

Description

It's tough to be a contrarian investor when it comes to Canada' oil patch these days. Short-term losses can be expected, and there's no real timeline as to when your shares may start appreciating. Canada's energy sector is clouded by uncertainty, and many investors have simply scratched energy stocks off their radars.

Nobody likes uncertainty, and one could argue that the pessimism surrounding the oil sands is near an all-time high. The oil sands are a tough place to be right now, but the possibility of border taxes, carbon taxes, cleanup costs, and a prolonged weak oil price environment make investing in Alberta's oil patch seem like a dangerously risky feat.

You're probably well aware of all the fear following Canada's energy sector right now, but as Warren Buffett once said, "… be fearful when others are greedy, and greedy when others are fearful." Fear is ridiculously high right now, but should you really follow the Oracle's words of wisdom in the case of the Canadian energy sector? A lot of large-cap companies have lost well over half their value in a short span, and it only looks like the negative momentum is picking up.

Although oil prices have stabilized at the US$45-50 levels, the stocks of many oil companies are worse off than they were in the early part of last year, when oil prices were at lower levels. Is it really time to buy Canadian oil stocks? Or should you throw in the towel, like so many foreign investors have?

A safer way to invest in Canadian oil sands

If you want to bet on the oil sands without risking too much of your capital over the short to medium term, then it would be a wise choice to opt for two of Canada's premier oil plays: **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) and **Suncor Energy Inc.** (TSX:SU)(NYSE:SU).

Unlike most Canadian oil stocks that have lost over half their value over the course of a year, shares of Canadian Natural Resources and Suncor are only down around 18% and 15%, respectively, from their 52-week highs. Both companies have solid balance sheets when compared to peers and have the ability to pay a sustainable dividend. Suncor currently yields 3.4%, while Canadian Natural Resources yields 2.9% — both of which are unlikely to be cut, even if the lower oil price environment is here to stay.

Many other Canadian oil companies have slashed their dividends many times already. Some have cut their dividends entirely, but Suncor and Canadian Natural Resources are not on this path because both firms are operating in a more efficient manner than their peers.

Both companies made deals to beef up their oil sands assets with the hopes of “buying low,” but, remarkably, neither company is overwhelmed with debt since both are aware that oil prices may stay depressed for longer than originally expected.

Bottom line

There are many reasons to be bearish on the Canadian energy sector as a whole, especially since renewable sources of energy are the future. Renewables are coming, but it’s going to be a slow transition, so don’t rule out oil yet — even dirtier forms of oil like the oil sands.

If you’re a contrarian investor who’s intrigued by the oil sands, then you may want to ask yourself if you’re in it for the long term or if you just want a lottery ticket that may pay off in the short term in the form of a turnaround. Because if you’re not in it for the long run, you’re probably setting yourself up for disappointment.

If you’re a patient investor, then pick up shares of one or both companies and collect the bountiful dividend yields while you wait for the turnaround to happen.

Stay smart. Stay hungry. Stay Foolish.

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Date
2025/09/06
Date Created
2017/07/20
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