



Cenovus Energy Inc. vs. Suncor Energy Inc.: Which Is Better?

Description

If you're an income investor looking for opportunities in Canada's energy sector, this is one of the best times to go out on hunting.

After years of belt-tightening to counter a long slump in oil prices, the nation's largest oil producers have started to turn the corner. The latest earning reports suggest that companies operating in oil sands are producing more oil with fewer dollars spent.

On July 27, **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) shares surged more than 9% after the company swung into profit. The jump in the share price of **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) wasn't too exciting. One thing was common for both companies: they were successful in cutting costs to the point where it surprised many analysts, producing a powerful rally in shares of oil sands producers.

Let's find out how did these two top players performed in the second quarter.

Earnings

In the second quarter, Cenovus reported net income of \$2.6 billion, or \$0.237 a share, up from a loss of \$267 million, or \$0.32 cents a share, a year earlier. The profit number beat analysts' forecast of \$0.02 profit a share.

For Suncor, the second quarter wasn't a bad one. Canada's second-largest oil sands producer reported a net profit of \$435 million, or \$0.26 a share, versus a loss of \$735 million, or \$0.46 per share. Analysts were expecting \$0.2 a share profit for the same period.

Cost cutting

Both oil sands giants are making a great progress in cutting their operational costs to become efficient producers to counter the supply glut.

Suncor reduced its oil sands cash operating cost 41% to \$27.80 per barrel in the second quarter —

helped by increased production. Cenovus said it can now cover the costs of operating its existing oil sands operations if West Texas Intermediate crude remains in a mid-\$30 range.

Cash generation

Cenovus's free cash flow surged by 128% to \$465 million in the second quarter when compared to the same period a year ago.

For Suncor, free cash flow turned into positive \$186 million from a negative \$303 million in the second quarter of 2016.

Cenovus shares plunged 40% this year after the company weakened its balance sheet to fund a \$13.3 billion acquisition of **ConocoPhillips** oil sands and Deep Basin assets. Investors disliked the deal when there was no sustainable recovery in sight for global crude prices and international energy firms were cancelling the expansion plans in the region.

But in the second-quarter earnings, there was a silver lining for Cenovus investors. The company said the ConocoPhillips purchase boosted total production by 65% to 436,929 barrels of oil equivalent per day in the quarter.

This development is net positive for Cenovus stock because it shows how quickly ConocoPhillips assets can generate more cash. And for Suncor, despite a little dismal performance in the second quarter, some better days are ahead after the company completed a major maintenance work which reduced the output in the second quarter.

Bottom line

I like Suncor more than Cenovus because of its better potential for income investors. Offering a 3.22% dividend yield, Suncor has consistently been increasing its dividend for the past 15 years. The latest was in the first quarter of 2017, when the quarterly payout was increased by 10% to \$0.32 a share.

But if your risk appetite is higher, then Cenovus is a good value play, especially at a time when its ConocoPhillips deal has started to pay off.

CATEGORY

1. Dividend Stocks
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