



Better Buy: Canadian Natural Resources Limited vs. Suncor Energy Inc.

Description

The ongoing rally in energy stocks suggests that it's got legs this time.

Canada's two top oil stocks, **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)) and **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)), have trimmed their losses for the year, showing great momentum over the past three months.

If you're an income investor looking to benefit from this momentum, it's tough to decide which one to buy when both companies have a leading position in the energy space and are well positioned to produce higher returns if oil prices continue their upward journey.

Let's have a closer look on these companies' growth potential.

Canadian Natural Resources Limited

Canadian Natural Resources, or CNRL, stock has soared ~11% in the past three months to \$41.21 after plunging to the 52-week low of \$35.90 in July.

Investors are bullish on this company's future growth potential after the company nicely positioned itself to benefit from for a sustained recovery in oil prices.

For example, the company recently acquired oil sands assets from **Royal Dutch Shell** — a move which is likely provide a great boost to its cash flows as oil prices recover.

This May, CNRL closed another deal, in which it acquired a 70% non-controlling stake in the Athabasca Oil Sands Project Mines, adding 2.3 billion barrels proved reserves.

The company is predicting it will increase its cash flows to \$6.5-6.9 billion this year, up from \$4.3 billion in 2016 on a 37% jump in its oil production.

With a dividend yield of 2.67%, CNRL pays a \$0.28-a-share quarterly dividend, or annualized \$1.1 a share, which is 17% higher than what it delivered last year.

Suncor Energy

The Alberta-based Suncor has a similar dominant position in the Canadian oil sands patch.

During the past three months, its stock has soared 13% to \$42.12, recovering from one-year low of \$36.02.

Like CNRL, Suncor has also positioned itself for a strong growth after a running a successful cost-cutting drive during this oil slump. According to its most recent estimates, the company can break even with WTI price of US\$37 per barrel. Its oil production will likely reach ~800 million barrels per day in 2019 from ~580 million barrels in 2015.

For dividend investors, Suncor has a very impressive payout history. The company has been increasing dividends 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 — \$1.28 on yearly basis.

Which one is better?

Irrespective of where oil prices are headed next, both CNRL and Suncor are in a position to return greater cash to their long-term investors. Both companies have lots of untapped reserves, which they can turn into dollars by investing very little capital.

I don't think a 50-50 allocation of your energy-focused investment between these two stocks would be a bad idea.

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